

**UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO**

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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO,
et al.,

(Jointly Administered)

Debtors.¹

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**SUMMARY SHEET ACCOMPANYING SECOND INTERIM FEE APPLICATION
OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, FOR THE PERIOD
FROM OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

Name of Applicant:

McKinsey & Company, Inc. Washington D.C.
("McKinsey")

Authorized to Provide Services to:

The Financial Oversight and Management Board for
Puerto Rico, as Representative of the Debtors
Pursuant to PROMESA Section 315(b)

Period for which Compensation
and Reimbursement is Sought:

October 1, 2017 through January 31, 2018

Monthly Fee Statements Subject
to Second Interim Fee Request:

Consolidated Second Monthly Fee Statement
for Compensation for Services Rendered
From October 1, 2017 Through October 31, 2017,
dated January 16, 2018

¹ The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); and (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

Consolidated Third Monthly Fee Statement for
Compensation for Services Rendered From November
1, 2017 Through January 31, 2018, dated March 16,
2018

Total Fees Requested for Second Interim Compensation Period:	\$6,550,000.00
Total expenses requested:	\$0.00²
Total fees and expenses:	\$6,550,000.00
Second Interim Holdback:	\$655,000.00 (10%)
Total payment requested for Second Interim Period:	\$5,884,000.00 (90% of unpaid fees totaling \$5,229,000.00 plus 10% holdback of \$655,000.00)
Total fees and expenses paid to date or subject to an Objection:	\$1,998,000.00 paid to date (90% of requested fees of \$2,220,000.00)
Type of Application:	Second Interim Fee Application: Commonwealth Title III Support
Deadline for parties other than notice parties to file objections:	April 9, 2018

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO,
et al.,

(Jointly Administered)

Debtors.³

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**SECOND INTERIM FEE APPLICATION
OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, FOR THE PERIOD FROM
OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

McKinsey & Company, Inc. Washington D.C. ("McKinsey"), strategic consultants to
Debtors in the above-captioned cases, respectfully represents:

INTRODUCTION

1. By this second interim fee application (the "Second Interim Fee Application"), McKinsey seeks the allowance and payment of compensation for professional services related to Commonwealth Title III support for Puerto Rico (the "Commonwealth" or the "Debtors") rendered pursuant to

³ The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); and (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim Compensation Order”), the applicable provisions of Title 11 of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), the Local Bankruptcy Rules of the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”) and Appendix B of the *U.S. Trustee’s Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. §330 by Attorneys in Large Chapter 11 Cases Effective as of November 1, 2013* (the “U.S. Trustee Guidelines,” and together with the Interim Compensation Order, the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, the “Code and Rules”). Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, the Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit A.

2. By this Second Interim Fee Application, McKinsey seeks allowance of compensation for professional services performed by McKinsey for the Commonwealth for the period from October 1, 2017 through January 31, 2018 (the “Compensation Period”) in the aggregate amount of \$6,550,000.00, representing 100% of fees incurred during the Compensation Period. McKinsey submits that allowance and payment of this amount is fully warranted given the actual and necessary services rendered to the Debtors by McKinsey, as described in this Second Interim Fee Application. The Debtors have not previously paid any amounts in respect of the foregoing requested fees and expenses.

BACKGROUND AND JURISDICTION

3. On May 3, 2017 (the “Petition Date”), the Commonwealth of Puerto Rico (as herein defined), by and through the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), pursuant to section 315(b) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), filed a petition (the “Petition”) with the United States District Court for the District of Puerto Rico (the “Court”) under Title III of PROMESA.
4. On May 5, 2017, the Puerto Rico Sales Tax Financing Corporation (“COFINA,” and together with the Commonwealth (the “Commonwealth”) of Puerto Rico, the “Debtors”), by and through the Oversight Board, as COFINA’s representative pursuant to PROMESA section 315(b), filed a petition (“COFINA’s Petition,” and together with the Commonwealth’s Petition, the “Petitions”) with the Court under Title III of PROMESA. The filings of the Petitions constitute orders for relief under Title III of PROMESA.
5. On May 9, 2017, the Debtor filed a motion seeking the joint administration of the Title III cases (the “Title III Cases”) for procedural purposes only, pursuant to PROMESA section 304(g) and Bankruptcy Rule 1015, made applicable to these Title III Cases by PROMESA section 310. On June 1, 2017, the Court ordered that the cases be consolidated for procedural purposes and be jointly administered.
6. On June 15, 2017, an Official Committee of Unsecured Creditors and an Official Committee of Retirees was appointed in the Title III case by the United States Trustee for Region 21.
7. On November 8, 2017, the Court entered *the First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals* (the “Interim Compensation Order”), which directs that professionals in the Title III Cases be paid interim

compensation and outlines the procedures by which professionals are to submit, at four-month intervals, “an application for interim Court approval and allowance of the payment of compensation.”

8. This Court has subject matter jurisdiction over this matter pursuant to PROMESA section 306(a). Venue is proper in this district pursuant to PROMESA section 307(a).

THE RETENTION OF MCKINSEY

9. On or about July 3, 2017 and as amended effective November 1, 2017, McKinsey & Company, Inc. Washington DC (“McKinsey”), a management consulting firm that serves the federal government, state and local agencies and the private sector, was retained by the Board to provide consulting services in support of the Title III litigation (the “Consulting Agreement”). The scope of this Second Interim Fee Application relates to the Consulting Agreement’s Scope of Work for Commonwealth Title III Support (“Commonwealth SOW”).
10. At the Board’s request and consistent with how McKinsey serves its federal, state, local government, and commercial clients, McKinsey’s fee structure under the Commonwealth SOW of the Consulting Agreement was constructed on a deliverable-based monthly firm fixed price basis, as set forth below:

Period of Performance	Fee
October 2017	\$740,000.00
November 2017	\$2,220,000.00
December 2017	\$1,650,000.00
January 2018	\$1,940,000.00

February 2018	\$1,940,000.00
March 2018	\$1,940,000.00

11. On December 15, 2017, McKinsey Washington filed its “First Interim Fee Application” for the period from May 3, 2017 through September 30, 2017 [Dkt No. 2073] (the “Application”), requesting \$5.12 million in fixed fee compensation (and no reimbursement of expenses) for services provided during the months of July, August and September 2017. The Fee Examiner reviewed the Application, and, by letter to McKinsey Washington dated February 13, 2018, outlined “Confidential Comments on the First Interim Fee Application”. On February 16, at McKinsey’s invitation, the Fee Examiner met with McKinsey Washington leadership and counsel in Washington DC to discuss the questions raised by the Fee Examiner’s letter.
12. These fixed monthly rates are similar to rates that McKinsey charges for professional services rendered in comparable matters. Such fees are reasonable based on the customary compensation in a competitive market.
13. There is no agreement or understanding between McKinsey and any other nonaffiliated person for the sharing of compensation to be received for services rendered in the Title III Cases.

SUMMARY DESCRIPTION OF SERVICES PERFORMED –
COMMONWEALTH TITLE III SUPPORT

14. Set forth below is a brief summary of the principal matters on which McKinsey provided services in connection with the Commonwealth SOW during the Compensation Period. The summary is intended to be just that – a summary – and not a detailed description of all the work performed during the Compensation Period. The complete details setting forth the day-to-day services provided by McKinsey professionals is included in McKinsey’s Consolidated Second

Monthly Fee Statement for Compensation For Services Rendered from October 1, 2017 through October 31, 2017 (the “Second Monthly Fee Statement”), and in McKinsey’s Third Monthly Fee Statement for Compensation For Services Rendered from November 1, 2017 through January 31, 2018 (the “Third Monthly Fee Statement”), attached hereto as Exhibit B. A list of McKinsey professionals who rendered services during the Compensation Period is attached hereto as Exhibit C.

Commonwealth Title III Support

October 2017:

During the month of October, McKinsey’s Commonwealth Title III team drafted and engaged with the government and its advisors to refine a seven quarter liquidity need estimate for the government of Puerto Rico through Q4 FY 2019; coordinated the review of monthly reports produced by AAFAF relating to cash flow and disaster relief funding; assessed the PR government’s estimates of cash balances; commenced planning for Creditor and Public Listening Sessions in November and December 2017; and refined the FOMB’s internal financial projections related to the ongoing Fiscal Plan revision process.

The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government’s post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB’s obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation.

The October work set the stage for numerous creditor and public engagement sessions in Fall 2017, a more accurate understanding of the post-Maria cash flow trends of the Puerto Rico government, and a review of the upcoming Fiscal Plan revision in January 2018 and beyond.

The core activities related to Commonwealth Title III support during the period included:

- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Commenced planning for Creditor Session, Creditor Economist Session and public Listening Session in November and December 2017
- Project management lead, including managing overall calendar

- Participation in and coordination of cross advisor meetings regarding Title III matters
- Drafted and revised Section 205 letters in conjunction with FOMB staff
- Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and coordinating the posting of the responses to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Conducted research and preliminary analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
 - Developed high-level milestones and plan for submission of revised Fiscal Plan based on FOMB guidance
- Ad-hoc analyses and Board meeting support
 - Prepare ad-hoc analyses regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Preparation for and attendance at the Public Board Meeting on October 31
- Report(s) regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in several cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Prepared updated post-hurricane Commonwealth liquidity needs assessment to incorporate greater detail and refined assumptions for FOMB
 - Participated in discussions with US Treasury in support of FOMB/government analysis regarding short-term liquidity financing needs for Puerto Rico

November 2017:

During the month of November work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor, Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The measures team conducted deep, agency-level measure analyses to develop the Board's perspective on the how the fiscal reforms contained in the March 13th Certified Fiscal Plan might be revised to reflect both magnitude of impact and feasibility of implementation post-hurricanes. The work consisted of two major categories of analysis: (1) adapting certified measures for both revenue enhancement and cost containment to reflect both the magnitude and timing feasible in a post-storm environment; (2) beginning the process of developing new measures identified since plan certification, including those made possible by demographic shifts and structural damage as a result

of the storms.

The baseline team conducted research, driving deep macroeconomic analysis, and worked with the FOMB and government economists to estimate the future macroeconomic projections for the island. This included analyzing impacts on revenue and expenditure projections in order to arrive at a post-Maria fiscal plan baseline.

The stakeholder engagement and modeling team refined the seven quarter liquidity estimate of the Puerto Rico government through Q4 FY 2019; coordinated the production of monthly reports by AAFAF relating to cash flow and disaster relief funding; refined the PR government's publicly disclosed estimates of cash balances; began a Fiscal Plan Entity Mapping assessment; executed a Creditor Session and two Public Listening sessions; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process. The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation.

The core activities related to Commonwealth Title III support during the period included:

- Independent Board perspective of potential revised fiscal reforms, including measure-specific targets and initiatives to capture fiscal value
 - Evaluated revenues measures in the post-Maria context, adjusting models to account for lower baseline revenues and identifying the most relevant initiatives that might be applied in a post-hurricane context;
 - Identified new potential measures for revenue enhancement, such as linking disaster fund allocation eligibility to proven tax compliance;
 - Performed analysis to estimate potential extent of K-12 school consolidation over the 5-year period using school-specific enrollment data, current district definitions, emigration assumptions, and standard benchmarks e.g., class size;
 - Performed analysis to estimate potential extent of prison consolidation over the 5-year period using prison-specific capacity and utilization data, standard benchmarks for utilization, and assumed inmate to FTE ratios;
 - Compared contracted prisoner healthcare costs with standard benchmarks in other states to identify opportunity;
 - Reviewed healthcare measures for likely adjustments from original fiscal plan, including incorporating updated PMPM data from government actuarial advisor, interviewing experts on likely changes in need to the system in a post-hurricane environment;
 - Reviewed Government's plan to improve the operations of ASEM including revenue cycle improvement;

- Interviewed experts on mergers and acquisitions on best practices for synergy capture in agency integrations; identified specific levers and examples that may demonstrate opportunity in various agencies;
- Assessed the potential reduction in Government spend that might be attributable to a future consolidation of Government agencies by creating logical groupings of agencies and calculated reductions based on a tiered system (in absence of “New Government” plan that has not yet been provided);
- Adjusted the anticipated implementation timelines for each measure based on reasonable assumptions for recovery following Hurricane Maria;
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
 - Generated list of potential speakers to share with team organizing listening sessions for measures;
 - Developed high level narrative of approach to redeveloping fiscal measures, based on learnings from the first fiscal plan, to be shared in creditor sessions;
 - Provided information about measures in first fiscal plan based on creditor requests for additional detail in specific areas;
 - Held informational interview with Secretary of Education and supporting advisor team to understand long-term strategy, medium-term fiscal opportunities, and short-term plan for the Department;
 - Participated in review calls with AAFAF advisors to understand progress against and plans for measures in the upcoming submission of the fiscal plan;
- Support models and documentation for sizing of specific measures levers
 - Developed model to estimate anticipated K-12 school consolidation;
 - Developed model to estimate anticipated prison facility consolidation;
 - Developed model to estimate potential capturable value from healthcare measures based on PMPM data, projected population and enrollment changes, and feasible measures;
 - Developed model to estimate potential reductions for each agency grouping likely to be integrated;
- Determined the core macroeconomic and demographic factors that would impact the new Fiscal Plan baseline in a post-Hurricanes Maria and Irma environment
- For each major macroeconomic factor (including, real GNP growth, population, inflation, etc.) and baseline driver (e.g., disaster spend, impact of GNP on revenues, etc.) in conjunction with Board and Government economists:
 - Identified and evaluated key data sources to understand early insights into potential changes in major drivers of the baseline (e.g., IMF Climate Lab Report, Hunter College Report, FEMA reports, PREPA contracts, etc.)

- Identified and evaluated comparable disaster events to compare to Puerto Rico (e.g., recessions in Ireland, Greece, Spain, U.S.; storms and natural disasters in New Orleans, New York, Grenada, Haiti), and used data to pressure test assumptions
 - Conducted scenario analysis to identify macroeconomic sensitivity to a variety of drivers (e.g., tax revenue elasticity, projected disaster spend and pass-through rate, hurricane impact, etc.) in order to drive the conversation regarding potential assumptions to use in an uncertain environment
- Determined resulting real GNP, population changes, and impacts on revenues and expenditures, e.g.,
 - GNP impact on all tax revenues and other consumption based revenues
 - Population impact on Medicaid, payroll, pensions spend
 - Inflation impact on all expenditures
 - Potential increased cap ex and op ex costs due to scarcity of goods and services as well as damage on island to core infrastructure
- Using March 13 Fiscal Plan baseline as a starting point, updated each model line item to reflect new factors
- Worked with a variety of McKinsey experts, prominent economists, and demographers, to pressure test model assumptions, refine approach, and finalize methodology (e.g., moved from time series analysis to Vector-Auto Regression/ Seemingly Unrelated Regression; pulled in Puerto Rico specific population data)
- Tracked real-time indicators to provide a sense for “what is happening on the ground” in a data poor environment, including
 - Conducting 100 airport interviews at San Juan airport to understand demographics of those leaving the island, as well as intentions to return
 - Utilizing dynamic, real-time social media data to understand connectivity within the island, as well as population flows between Puerto Rico and other cities
 - Conducting an online social media survey to test sentiment in the Puerto Rican population in the U.S. who had left as a result of the storms (e.g., status of family members, desire to return, etc.)
 - Conducted interviews of industry leaders (e.g., real estate, healthcare, retail banking, etc.) to understand industry dynamics in short and long term post-hurricane
- Tracked non-hurricane related factors (e.g., Act 154 policy, Federal Tax Reform, ACA discussions) and analyzed as necessary to understand potential impact on revenues and expenditures in the future
- Prepared and led Executive Director and Board interactions to share insights and tee up key policy decisions related to baseline
- Conducted scenario analyses to measure impact of fiscal measures in time of economic crisis, to inform Board perspective on fiscal plan measures and structural reforms
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on November 9 focused on macroeconomic planning factors, disaster relief assumptions and baseline revenue/expense projections

- Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day public listening session on November 16 focused on macroeconomic planning factors and disaster relief assumptions
- Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day creditor session on November 30 focused on fiscal measures
- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters in order to monitor key concerns, align on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Revised Section 205 letters in conjunction with FOMB staff
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and posting the answers to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Conducted research and preliminary analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
 - Developed high-level milestones plan for submission of revised Fiscal Plan based on FOMB guidance
- Expert testimony and analytical support
 - Prepare ad-hoc analysis regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Served as moderator during and provided expert testimony for Creditor Session and public Listening Session
- Monthly report regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Updated the post-hurricane Commonwealth liquidity needs assessment covering the 7 quarter period ending Q4 FY2019 to incorporate greater detail and refined assumptions of the FOMB
 - Participated in discussions with US Treasury in support of FOMB/government analysis regarding short-term liquidity financing needs for Puerto Rico

December 2017:

During the month of December work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor,

Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The measures refined the assumptions and other input to inform deep, agency-level measure analyses to develop the Board's perspective on the how the fiscal reforms contained in the March 13th Certified Fiscal Plan might be revised to reflect both magnitude of impact and feasibility of implementation post-hurricanes. The work consisted of two major buckets of analysis: (1) engaging expert input, a dedicated research team, and independent research to identify information, benchmarks, data, and other evidence to build confidence in assumptions about pre-existing and new potential measures; (2) further developing new measures identified since plan certification, including those made possible by demographic shifts and structural damage as a result of the storms.

The baseline team continued to research, driving deep macroeconomic analysis, and worked with the FOMB and government economists to estimate the future macroeconomic projections for the island, as well as their impacts on revenue and expenditure projections in order to arrive at an accurate, post-Maria fiscal plan baseline. In addition, the team identified core areas of structural reforms needed to drive economic growth, and for each area (e.g., energy, infrastructure, job creation and ease of doing business, human capital and labor, and healthcare), identified overall aspirational outcomes for Puerto Rico, as well as potential five-year targets. The team then developed a list of potential initiatives the government could pursue to drive such outcomes. Finally, the team provided thought partnership on the overall framing of the fiscal plan given the economic situation the island was in – and the need for a transformational roadmap in addition to a focus on fiscal discipline.

The stakeholder engagement and modeling team continued to refine the seven quarter liquidity estimate of the Puerto Rico government through Q4 FY 2019; coordinated the production of monthly reports by AAFAF relating to cash flow and disaster relief funding; refined the PR government's publicly disclosed estimates of cash balances; completed a Fiscal Plan Entity Mapping assessment; executed a Creditor Session, Public Listening session, and Creditor Economist Session; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process. The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation.

The core activities related to Commonwealth Title III support during the period included:

- Independent Board perspective of potential revised fiscal reforms, including measure-specific targets and initiatives to capture fiscal value
 - Refined education model to estimate anticipated K-12 school consolidation with updated assumptions including refined benchmarks, e.g., school size;

- Refined corrections model to estimate anticipated prison facility consolidation using input and updated data received from the government, reviewing recent court decisions to inform potential constraints on the consolidation;
- Integrated input from Board and McKinsey experts to refine assumptions in healthcare measure value estimates as well as identify a new measure to evaluate;
- Researched benchmarks on police spend per capita, per crime, and per land mass in other states, comparing to Puerto Rico spending and other metrics on an adjusted PPP basis;
- Revised agency consolidation model to reflect Board guidance on groupings, agency tiers, and degree of proliferation to establish annual fiscal targets by grouping through FY22;
- Adjusted the anticipated implementation timelines for each measure based on additional information;
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
 - Participated in review calls with AAFAF and advisors to understand progress against and plans for measures in the upcoming submission of the fiscal plan, including reviewing preliminary presentations on corrections savings opportunities and procurement transformation approach;
 - Participated in a roundtable discussion via webex and phone with various MCOs to gather their perspectives on the recovery of the healthcare system;
- Support models and documentation for sizing of specific measures levers
 - K-12 school consolidation potential assessed at both campus and classroom level, for all districts and regions, respectively;
 - Prison facility consolidation model based on utilization reality in Puerto Rico compared with other US states;
 - Healthcare measures savings potential for emergency liquidity measures, mid-term fiscal stabilization, and long-term structural reforms;
 - Agency consolidation model to establish groupings, tiering of agencies, and generate savings targets for each based on degree of proliferation
- Updated, maintained, and conducted ongoing quality assurance on hundreds of inputs to macroeconomic models forecasting the future course of the economy of Puerto Rico
- Sourced new data and inputs into baseline model of the economy of Puerto Rico, including inputs from the Government, independent research, listening sessions, among other sources
- Identified areas of structural reforms that could contribute to growth across the economy (e.g., labor market, energy, tax, etc.)
- Conducted outreach and interviews on potential structural reforms with Government, private sector stakeholders
- For all structural reforms, identified core aspirational end states as well as potential five-year targets to drive within scope of fiscal plan

- Created synthesis of potential issues for Puerto Rico coming out of US federal tax reform, incorporating inputs from other Board advisors, external tax academic experts, and stakeholder in Puerto Rico
- Refined key estimates that influence the baseline projection of economic activity in Puerto Rico (e.g., projected federal disaster spend, population / demographic shifts, etc.)
- Attended and conducted input sessions with economists to pressure test macroeconomic baseline
- Launched corporate survey to better understand the impact of the hurricane and federal tax reform on local and multi-national corporations
- Conducted in-depth literature review of other jurisdictions' experience post-disaster in terms of impacts on GDP, revenues, expenditures, etc.
- Facilitated weekly Board interactions, supported FOMB staff on an ad-hoc basis with key analyses
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Listening Session on December 4 that focused on capital spending and structural measures
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on December 6 that focused on fiscal and structural measures
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate a Creditor Economist Session on December 7 that focused on all aspects of the revised Fiscal Plan projections that were under development at the time
 - Commenced planning for a listening session in February 2018
 - Supported FOMB in preparation for and attended public Board meeting on December 5
- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters in order to monitor key reports, align on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Supported FOMB's response to Rule 2004 inquiry from GO bondholders
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and posting the answers to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Refined research and analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
- Ad-hoc analysis and analytical support

- Refined ad-hoc analysis regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
- Served as moderator during and provided expert testimony for Creditor Session, Creditor Economist Session and Listening Session
- Reports regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Updated the post-hurricane Commonwealth liquidity needs assessment covering the 7 quarter period ending Q4 FY2019 to incorporate greater detail and refined assumptions
 - Refined cash inventory analysis and facilitated the FOMB making the cash inventory publicly available

January 2018:

During the month of January work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor, Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The baseline and measures team continued to develop and refine the FOMB's perspective across all aspects of the fiscal plan, including the baseline, fiscal measures, and structural reforms. In addition, it involved driving analysis of the Government's fiscal plan submissions to date to pinpoint key areas of divergence. The team drove towards finalization of FOMB baseline and measures models, developed structural reform initiatives to drive economic growth, and produced content to support the FOMB in its working sessions with the Government.

The stakeholder engagement and modeling team developed analyses to quantify and evaluate the financial impact of FOMB fiscal plan assumptions, reviewed and analyzed the draft fiscal plan submitted by the government, and supported creditor mediation/listening session preparation. The work consisted of two primary workstreams: (1) financial planning and analysis related to the FOMB perspective regarding Fiscal Plan assumptions (2) review, analysis, response to draft fiscal plan submitted by the government.

The core activities related to Commonwealth Title III support during the period included:

- Facilitated weekly Board sessions to align on Fiscal Plan perspective and supported FOMB staff on an ad-hoc basis with key analyses

- Led Board preparation for sessions with the Government on major topics of discussion related to the fiscal plan
- Updated, maintained, and conducted ongoing quality assurance on hundreds of inputs to macroeconomic models forecasting the future course of the economy of Puerto Rico
- Worked towards finalization of data and inputs into baseline model of the economy of Puerto Rico, including inputs from the Government, independent research, listening sessions, among other sources, as new data became available
- Refined key estimates that influence the baseline projection of economic activity in Puerto Rico (e.g., projected federal disaster spend, revenue collections, Medicaid PMPM estimates, etc.)
- Refined analysis of Board's perspective on core fiscal measures (e.g., government rightsizing, procurement savings reductions, subsidies, pensions, healthcare, education, etc.)
- Developed potential structural reform initiatives to contribute to growth across the economy (e.g., labor market, energy, tax, etc.), and sized impact in collaboration with economists
- Conducted outreach and interviews on structural reforms with Government, private sector stakeholders
- Led diligence of Government Fiscal Plan submissions, including analysis of hundreds of discrete data sources and inputs, comparing with FOMB perspective baseline, measures, and structural reform scoring; scored Government Fiscal Plan and worked with FOMB staff to identify key recommendations and requirements
- Conducted multiple sessions with Government advisors to pressure test assumptions, refine data, discuss core ideas underpinning the fiscal plan
- Financial model(s) and analyses requested by the FOMB
 - Continued development of macro baseline assumptions to include effects of disaster recovery funding
 - Updated FY18 baseline revenue projections to include fiscal year-to-date actual results
 - Developed analysis bridging FY18 projected expenses to FY18 budget
 - Processed general model structure updates as required
- Review and analysis of draft fiscal plan submitted by government
 - Developed dynamic variance analysis highlighting key areas of difference between government and FOMB perspectives
 - Reviewed and analyzed entities covered in government fiscal plan to ensure all required entities accurately reflected in fiscal plan
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements

- Commenced planning for public listening session discussing the future of Puerto Rico’s power market and creditor mediation session discussing the draft revised Commonwealth Fiscal Plan
- Successfully conducted public listening session discussion the future of Puerto Rico’s power market
- Support related to liquidity reporting and related matters
 - Commenced process of transferring regular liquidity reporting to FOMB staff on a go forward basis
 - Continued coordination with government advisors to understand municipality paygo payment status
 - Continued support and coordination with FOMB staff and advisors related to ongoing Commonwealth cash balance analysis

SUMMARY OF PROFESSIONAL COMPENSATION REQUESTED

15. Pursuant to the Interim Compensation Order, on December 12, 2017, McKinsey served on the Notice Parties (as defined therein) the Consolidated First Monthly Fee Statement for services rendered from July 1, 2017 through and including September 30, 2017 (the “Consolidated First Monthly Fee Period”). On February 2, 2018, McKinsey was paid \$1,332,000.00, representing ninety (90%) of its requested fees of \$1,480,000.00,⁴ in connection with McKinsey’s services related to Commonwealth Title III support during the Consolidated First Monthly Fee Period, leaving an outstanding ten (10%) percent holdback (the “First Interim Holdback”) of \$148,000.00.

16. In accordance with the Interim Compensation Order, on December 15, 2017, McKinsey filed its First Interim Fee Application (the “First Interim Fee Application”) for the period May 3, 2017 through and including September 30, 2017 (the “First Interim Compensation Period”) [Docket

⁴ Of the \$5,120,000.00, \$1,480,000.00 represents requested compensation for professional services related to Commonwealth Title III support, of which 90%, in the amount of \$1,332,000.00, was paid on February 2, 2018. The balance of \$3,640,000.00 represents requested compensation related to other scopes of work performed during the Consolidated First Monthly Fee Period under the Consulting Agreement.

No. 2074]. Pursuant to the First Interim Fee Application, McKinsey sought (i) an interim allowance of \$4,608,000.00, representing ninety (90%) percent of its total fees of \$5,120,000.00 incurred during the First Interim Compensation Period and (ii) payment of the outstanding ten (10%) percent holdback (the “First Interim Holdback”) in the amount of \$512,000.00. Pursuant to the Court’s Order dated March 7, 2018, the hearing on the First Interim Fee Application was deferred on consent to April 25, 2018 [Docket No. 2685].

17. In accordance with the Interim Compensation Order, on January 16, 2018, McKinsey served on the Notice Parties (as defined therein) the Second Monthly Fee Statement for services rendered from October 1, 2017 through October 31, 2017 (the “Second Monthly Fee Period”). On February 28, 2018, McKinsey was paid \$666,000.00, representing ninety (90%) of its requested fees of \$740,000.00 in connection with McKinsey’s services related to Commonwealth Title III support during the Second Monthly Fee Period, leaving an outstanding ten (10%) percent holdback (the “First Interim Holdback”) of \$74,000.00
18. In accordance with the Interim Compensation Order, on March 16, 2018, McKinsey served on the Notice Parties (as defined therein) the Third Monthly Fee Statement for services rendered from November 1, 2017 through January 31, 2018 (the “Third Monthly Fee Period”).
19. As reflected in the Third Monthly Fee Statement, during the Third Monthly Fee Period, McKinsey incurred \$2,220,000.00 in fees related to Commonwealth Title III support and sought payment of ninety (90%) percent of such fees (\$1,998,000.00) in accordance with the Interim Compensation Order. To date, McKinsey has not been paid any fees for services rendered during the Third Monthly Fee Period.
20. Pursuant to this Second Interim Fee Application, McKinsey seeks an interim allowance and payment of \$6,550,000.00, representing ninety (90%) percent of its total fees (\$5,895,000.00)

incurred during the Compensation Period along with payment of the outstanding ten (10%) percent holdback (the “Second Interim Holdback”) in the amount of \$655,000.00, for a total of \$6,550,000.00.

21. All services performed by McKinsey for which fees are requested herein were performed or incurred for and on behalf of the Debtor and were not for any other person or entity.

THE REQUESTED COMPENSATION SHOULD BE ALLOWED

22. Section 331 of the Bankruptcy Code provides for interim compensation of professionals and incorporates the substantive standards of section 330 to govern the Court's award of such compensation. Section 330 of the Bankruptcy Code provides that a court may award a professional "reasonable compensation for actual necessary services rendered ... and reimbursement for actual, necessary expenses." 11 U.S.C. § 330(a)(1). Section 330 sets forth the criteria for the award of such compensation and reimbursement:

In determining the amount of reasonable compensation to be awarded ..., the court should consider the nature, the extent, and the value of such services, taking into account all relevant factors, including-

- (A) the time spent on such services;
- (B) the rates charged for such services;
- (C) whether the services were necessary to the administration of, or beneficial at the time at which the service was rendered toward the completion of, a case under this title;
- (D) whether the services were performed within a reasonable amount of time commensurate with the complexity, importance, and nature of the problem, issue, or task addressed;
- (E) with respect to a professional person, whether the person is board certified or otherwise has demonstrated skill and experience in the bankruptcy field; and

(F) whether the compensation is reasonable based on the customary compensation charged by comparably skilled practitioners in cases other than cases under this title 11 U.S.C. § 330(a)(3).

23. As demonstrated by this Second Interim Fee Application and the exhibits attached hereto, the services that McKinsey rendered during the Compensation Period were reasonable, necessary and appropriate. McKinsey expended its time economically and without unnecessary duplication of effort. In addition, the work conducted was carefully assigned to appropriate professionals, according to the experience and level of knowledge required for each particular task. Accordingly, approval of the compensation sought herein is warranted.

CONCLUSION

WHEREFORE, McKinsey respectfully requests that the Court enter an order (i) awarding McKinsey an interim allowance and payment of compensation for the Compensation Period in the total amount of \$6,550,000.00, (ii) directing payment by the Debtor of any and all outstanding amounts allowed but not yet paid by the Debtor pursuant to the Interim Compensation Order, including the Second Interim Holdback in the amount of \$655,000.00, (iii) authorizing and directing the Debtor to pay McKinsey the total amount of such interim fees, and (iv) granting such other relief as this Court deems just and proper.

Dated: March 19, 2018
Washington DC

McKinsey & Company, Inc. Washington DC

s/ Tyler Duvall
Tyler Duvall, Partner
McKinsey & Company, Inc. Washington DC
1200 19th Street NW Suite 1100
Washington DC 20036
Telephone: (202) 662 0078
Email: tyler_duvall@mckinsey.com

Strategic Consultant to the Debtor

Certificate of Service

1. Notice of this Second Interim Fee Application has been or will be provided by overnight delivery

to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP,
Eleven Times Square
New York, NY 10036
Attn: Martin J. Bienenstock, Esq. and Ehud Barak, Esq.
And
Proskauer Rose LLP
70 West Madison Street, Chicago, IL 60602
Attn: Paul V. Possinger, Esq.

Co-Counsel for FOMB:

O'Neill & Borges LLC,
250 Muñoz Rivera Ave.
Suite 800
San Juan, PR 00918
Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP,
Times Square Tower, 7 Times Square
New York, NY 10036
Attn: John J. Rapisardi, Esq.
Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street
Suite 301
San Juan, PR 00901

(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

Paul Hastings LLP

200 Park Avenue

New York, NY 10166

Attn: Luc. A. Despina, Esq.

Andrew V. Tenzer, Esq.

Michael E. Comerford, Esq.

G. Alexander Bongartz, Esq.

and

Casillas, Santiago & Torres, LLC (Proposed)

El Caribe Office Building

53 Palmeras Street, Ste. 1601

San Juan, Puerto Rico 00901-2419

Attn: Juan J. Casillas Ayala, Esq.

Diana M. Battle-Barasorda, Esq.

Alberto J. E. Añeses Negrón, Esq.

Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP

919 Third Ave.

New York, NY 10022-3908

Attn.: Robert Gordon, Esq.

Richard Levin, Esq.

and

Bennazar, Garcia & Millian, C.S.P.

Edificio Union Plaza, PH-A Piso 18

Avenida Ponce de Leon #416

Halto Rey, San Juan

Puerto Rico 00918

Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner

Brady Williamson

One East Main Street

Suite 500

Madison, WI 53703-3300

EXHIBIT A

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

-----X

In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO,
et al.,

(Jointly Administered)

Debtors.

-----X

**CERTIFICATION OF TYLER DUVALL IN SUPPORT OF SECOND INTERIM FEE
APPLICATION OF MCKINSEY & COMPANY, INC. WASHINGTON D.C.
AS CONSULTING SERVICES PROVIDER TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO, FOR THE PERIOD
FROM OCTOBER 1, 2017 THROUGH JANUARY 31, 2018**

I, Tyler Duvall, certify as follows:

1. I am a Partner in the firm of McKinsey & Company, Inc. Washington DC ("McKinsey"). I submit this certification with respect to the second interim fee application of McKinsey as consulting services provider in the above-captioned case (the "Second Interim Fee Application") for the allowance of compensation for professional services rendered during the relevant application period.
2. I make this certification in accordance with the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the "Interim Compensation Order").
3. In connection therewith, I hereby certify that:
 - (a) I have read the Second Interim Fee Application;
 - (b) To the best of my knowledge, information and belief formed after reasonable inquiry, the fees sought in the Second Interim Fee Application are in substantial compliance with the Interim Compensation Order and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330, adopted on January 30, 1996; and

- (c) The Debtor, the United States Trustee, the official committee of unsecured creditors and the official committee of retirees of the Debtor have been provided with a copy of the Second Interim Fee Application simultaneously with the filing thereof, and will have at least 10 days to review such Second Interim Fee Application prior to any objection deadline with respect thereto.

Dated: March 19, 2018
Washington DC

/s/ Tyler Duvall
Tyler Duvall, Partner
McKinsey & Company, Inc. Washington DC
1200 19th Street NW Suite 1100
Washington DC 20036
Telephone: (202) 662 0078
Email: tyler_duvall@mckinsey.com

EXHIBIT B

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

-----X

In re: PROMESA
Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.¹

-----X

**SECOND MONTHLY FEE STATEMENT OF MCKINSEY & COMPANY, INC.
WASHINGTON D.C. FOR COMPENSATION FOR SERVICES RENDERED FOR THE
PERIOD OCTOBER 1, 2017 THROUGH OCTOBER 31, 2017**

Name of Professional: McKinsey & Company, Inc. Washington D.C.
("McKinsey")

Authorized to Provide Services to: The Financial Oversight and Management Board for
Puerto Rico, as Representative of the Debtors
Pursuant to PROMESA Section 315(b)

Period for which compensation
and reimbursement is sought: October 1 – 31, 2017

Amount of compensation sought
as actual, reasonable and necessary: **\$1,480,000.00**

Amount of expense reimbursement sought
as actual, reasonable and necessary²: **\$0.00**

Type of Fee Statement : Second Monthly Fee Statement³

¹ The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); and (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

³ Notice of this Second Monthly Fee Statement (as defined herein) has been served in accordance with the Interim Compensation Order (as defined herein) and objections to payment of the amounts described in this Monthly Fee Statement shall be addressed in accordance with the Interim Compensation Order.

1. Pursuant to the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim Compensation Order”), the applicable provisions of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and the Local Bankruptcy Rules for the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”), McKinsey & Company, Inc. Washington D.C. (“McKinsey”), strategic consultants to The Financial Oversight And Management Board For Puerto Rico (the “Debtors” or the “Board”), hereby serves this Second Monthly Fee Statement for the allowance of compensation for reasonable and necessary strategic consulting services and support that McKinsey provided during the month of October 2017 (the “Fee Period”) pursuant to the consulting agreement entered into between McKinsey and the Board on or about and July 3, 2017 for consulting services in support of the Title III litigation (the “Consulting Agreement”). Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, a Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit A.
2. By this Second Monthly Fee Statement, McKinsey seeks allowance of compensation for services rendered under the Consulting Agreement during the Fee Period in the amount of \$1,332,000.00 (which equals 90% of the compensation sought herein, in accordance with Section 2.c of the Interim Compensation Order).

Summary of Services Rendered During the Fee Period

3. As described in McKinsey’s First Monthly Fee Statement (dated December 14, 2017), the scope of work under the Consulting Agreement (included at Exhibit B) is divided into three

- (3) distinct workstreams: (i) Title III Support for PREPA; (ii) Commonwealth Title III Support; and (iii) Title III Support for HTA.
4. During the Fee Period, McKinsey provided a focused range of professional services as requested by the Board and reflected in the Consulting Agreement for two of the three workstreams, namely (ii) Title III Support for PREPA; and (iii) Commonwealth Title III Support.
 5. Included at Exhibit C is a detailed summary of McKinsey's scope of services, deliverables and team member activities performed during the Fee Period.
 6. Included at Exhibit D are copies of McKinsey's monthly invoices³ for fees incurred during the Fee Period pursuant to the Consulting Agreement. McKinsey's fees – as reflected in the invoices – are based on the usual and customary fees McKinsey charges to clients and are commensurate with the services performed. As reflected in Exhibit D, McKinsey incurred \$1,480,000.00 in fees during the Fee Period, and now seeks reimbursement for 90% of such fees (\$1,332,000.00).
 7. The efforts expended by McKinsey during the Fee Period have been commensurate with the size and complexity of these cases. In rendering these services, McKinsey has made every effort to maximize the benefit to the Debtors, to work efficiently with the other professionals employed in these cases, and to leverage staff appropriately in order to minimize duplication of effort.

³ The invoices included at Exhibit D reflect Puerto Rico withholding tax (29%), which is applicable to payments for services performed in Puerto Rico. In accordance with the terms of the Consulting Agreement, McKinsey has calculated the proportion of fees attributable to work performed in Puerto Rico and determined the applicable tax to be withheld by the client for payment to the Puerto Rico tax authorities. The net amount reflected on the invoices to be collected by McKinsey is consistent with the terms of the Consulting Agreement.

8. McKinsey respectfully submits that the amounts applied for herein for professional services rendered on behalf of the Board in these cases to date are fair and reasonable given: (a) the time expended; (b) the nature and extent of the services performed at the time at which such services were rendered; and (c) the value of such services.

Representations

9. While every effort has been made to include all fees incurred by McKinsey during the Fee Period, some fees may not be included in this Second Monthly Fee Statement due to certain unavoidable delays caused by accounting and processing during the Fee Period. McKinsey reserves the right to make further application(s) for allowance of such fees not included herein. Subsequent fee statements and applications will be filed in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and the Interim Compensation Order.

Notice

10. Notice of this Second Monthly Fee Statement has been or will be provided by overnight delivery to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP
Eleven Times Square
New York, NY 10036
Attn: Martin J. Bienenstock, Esq.
Ehud Barak, Esq.

and
Proskauer Rose LLP
70 West Madison Street, Chicago, IL 60602
Attn: Paul V. Possinger, Esq.

Co-Counsel for FOMB:

O'Neill & Borges LLC
250 Muñoz Rivera Ave.
Suite 800
San Juan, PR 00918
Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP
Times Square Tower, 7 Times Square
New York, NY 10036
Attn: John J. Rapisardi, Esq.
Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street, Suite 301
San Juan, PR 00901
(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

Paul Hastings LLP
200 Park Avenue
New York, NY 10166
Attn: Luc. A. Despina, Esq.
Andrew V. Tenzer, Esq.
Michael E. Comerford, Esq.
G. Alexander Bongartz, Esq.

and
Casillas, Santiago & Torres, LLC (Proposed)
El Caribe Office Building
53 Palmeras Street, Ste. 1601
San Juan, Puerto Rico 00901-2419
Attn: Juan J. Casillas Ayala, Esq.
Diana M. Batlle-Barasorda, Esq.
Alberto J. E. Añeses Negrón, Esq.
Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP

919 Third Ave.
New York, NY 1022-3908
Attn.: Robert Gordon, Esq.
Richard Levin, Esq.
and
Bennazar, Garcia & Millian, C.S.P.
Edificio Union Plaza, PH-A Piso 18
Avenida Ponce de Leon #416
Hato Rey, San Juan
Puerto Rico 00918
Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner:

Brady Williamson
One East Main Street, Suite 500
Madison, WI 53703-3300

WHEREFORE, McKinsey respectfully requests payment by the Debtors of \$1,332,000.00,
representing 90% of its fees incurred during the Fee Period and requested herein.

Dated: DATE
 Washington DC

McKinsey & Company, Inc. Washington DC

 s/Tyler Duvall
Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC
1200 19th St NW #1000
Washington, DC 20036
Telephone: (202) 662-3100
Email: Tyler_Duvall@Mckinsey.com

Strategic Consultant to the Debtors

EXHIBIT A

Certification of McKinsey Partner Tyler Duvall

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

-----X

In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.

-----X

CERTIFICATION OF TYLER DUVALL

I, Tyler Duvall, hereby declare the following under penalty of perjury:

1. I am one of the McKinsey Partners providing consulting services related to the above-captioned Title III case.
2. I have personally performed many of the professional services rendered by McKinsey as strategic consultant to the Debtors and am familiar with all other work performed on behalf of the Debtors by the Partners, Associates, and other persons in the Firm.
3. The facts set forth in the foregoing Second Monthly Fee Statement are true and correct to the best of my knowledge, information, and belief.
4. I have reviewed the Interim Compensation Order and believe that McKinsey's Second Monthly Fee Statement complies therewith.

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: January 16, 2018
Washington, DC

s/Tyler Duvall

Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC

EXHIBIT B

Consulting Agreement

PROPRIETARY and CONFIDENTIAL

CONSULTING AGREEMENT

McKinsey & Company, Inc. Washington D.C. ("McKinsey") and The Financial Oversight and Management Board for Puerto Rico (the "Board" or the "Client") hereby enter into the following terms effective July 3, 2017 in connection with consulting services that McKinsey provides to Client for Strategic Consulting support related to the Title III Litigation(the "Services").

1. SERVICES. The working arrangements, including scope of the Services and Deliverables (as defined below) will be described in each mutually-executed Scope of Work, attached hereto as individual Attachments and incorporated herein, and cannot be materially amended without mutual agreement of the Parties. In order to be able to complete the Services within the agreed timeframe and budget and to fulfill its responsibilities on a timely basis, McKinsey will rely on the Client's timely cooperation, including the Client and the Government of Puerto Rico's making available relevant data, information and personnel, performing any tasks or responsibilities assigned to the Client or the Government of Puerto Rico and notifying McKinsey of any issues or concerns the Client may have relating to the Services. The Client is solely responsible for ensuring that the Government of Puerto Rico cooperates with responding to requests for purposes of the Services. The parties will meet at mutually agreed times to discuss the progress of the Services and to exchange feedback. During the course of the Services, priorities may shift or unexpected events may occur which may necessitate changes to the Services. In this event, the parties will jointly discuss the anticipated impact on the Services and agree on any appropriate adjustments, including to the scope of work, timeframe and budget.

2. COMPENSATION. The Client shall compensate McKinsey on a Firm Fixed Price basis in connection with the Services, as set forth in the Attachments. Any payments made by the Board to McKinsey hereunder are expressed net of any deductions or withholdings that may be applicable in respect of taxes, duties or levies and the Client will pay those amounts to McKinsey, in cleared funds. The parties agree that McKinsey is solely responsible for any applicable withholding and payment of taxes with respect to McKinsey Personnel as required by law. Neither party undertakes, pursuant to his Agreement or otherwise, to perform or discharge any liability or obligation of the other party, whether regulatory or contractual, or to assume any responsibility whatsoever for the conduct of the business or operations of the other party. Consistent with the public purpose of the Client's mandate, this Agreement will be made publicly available subject to Section 5 below. McKinsey will invoice the Client for Deliverables in connection with the Services monthly or as otherwise set forth in the applicable Proposal. Except for Services provided under retainer, all invoices are to be paid in accordance with the court order setting procedures for interim compensation and reimbursement of professionals.

3. CONFIDENTIALITY. Subject to applicable public disclosure laws and the disclosure procedures established by Client that do not otherwise conflict with terms in this agreement, each Party agrees to keep confidential any confidential information furnished by either Party in connection with the Services ("Confidential Information"); provided, however, that the Client may disclose Confidential Information from McKinsey as necessary or desirable to carry out its statutory duties. The Client agrees to provide McKinsey prior notice of its intent to disclose Confidential Information from McKinsey. Without the Client's explicit consent, McKinsey will disclose Confidential Information only to its employees, agents and contractors who have a need to know and are bound to keep it confidential and will use Confidential Information only for purposes of performing the Services. Confidential Information shall be all information other than information that is (i) or becomes publicly available other than as a result of a breach of this agreement, (ii) already known to the Receiving Party, (iii) independently acquired or developed by the Receiving Party without violating any of its obligations under this agreement, or (iv) is legally required to be disclosed. All documents supplied by the Receiving Party Client in connection with the services hereunder will, upon written request, be returned by the Receiving Party to the Disclosing Party or destroyed, provided that the Receiving Party may retain a copy for archival purposes. In performing the Services, McKinsey will use and rely primarily on the Confidential Information and on information available from public sources without having independently verified the same and does not assume responsibility for the accuracy or completeness of the Confidential Information or such other publicly available information and Section 5 herein.

4. INTELLECTUAL PROPERTY. Upon payment in full of McKinsey's Fees associated with the relevant Services, the Client will own all reports, financial models and other deliverables prepared for and furnished to the Client by McKinsey in connection with the Services (the "Deliverables"), save that McKinsey retains ownership of all concepts, know-how, tools, frameworks, models, and industry perspectives developed or enhanced outside of or in connection with the Services (the "McKinsey Tools"), it being understood that none of the McKinsey Tools will contain the Client's

Confidential Information. To the extent the Deliverables include any McKinsey Tools, McKinsey hereby grants the Client a non-exclusive, non-transferable, non-sublicenseable, worldwide, royalty-free license to use and copy the McKinsey Tools solely as part of the Deliverables and subject to the limitations herein on disclosure of McKinsey materials and publicity.

5. DISCLOSURE OF MCKINSEY MATERIALS; PUBLICITY. McKinsey's work for the Client is confidential and for the Client's internal use only; provided, however, the Client may disclose such work to the extent such disclosure is necessary or desirable to carrying out the Client's statutory duties. The Client agrees that it will not disclose McKinsey's name in relation to any disclosure of work hereunder without McKinsey's consent. McKinsey will not disclose the Deliverables to any third parties (including any non-voting Board members) without the Client's prior written permission. McKinsey further agrees not to use the Client's name in any communication with any third party without the other party's prior written permission, including in press releases or other public announcements. If the Client receives a public records request for Deliverables or other documents containing McKinsey information, the Client will allow McKinsey the ability to review the documents prior to disclosure to advise if the documents contain information subject to an exception or exemption to the relevant public records law.

6. SERVING COMPETITORS. It is McKinsey's long-standing policy to serve competing clients and clients with potentially conflicting interests as well as counter-parties in merger, acquisition and alliance opportunities, and to do so without compromising McKinsey's professional responsibility to maintain the confidentiality of client information. Consistent with such practice and McKinsey's confidentiality obligations to its other clients, McKinsey is not able to advise or consult with the Client about McKinsey's serving the Client's competitors or other parties. To avoid situations of potential conflict, McKinsey will not, for a period of one year following an engagement for the Client, assign any consultant who receives Confidential Information in connection with such engagement to a competitively sensitive project, including a directly-conflicting engagement with the Government of Puerto Rico. Notwithstanding the foregoing, the Client understands and agrees that so long as McKinsey has appropriate procedures in place to mitigate any potential conflict, it may serve the Government of Puerto Rico on related matters.

7. INDEMNIFICATION.

(a) Deliverables produced hereunder are not intended as a substitute for financial, investment, legal, accounting or other professional advice, and McKinsey does not intend to supplant the Client or the Government of Puerto Rico's management or other decision-making bodies.

(b) The Client and the Government of Puerto Rico remain solely responsible for its decisions, actions, use of the Deliverables and compliance with applicable laws, rules and regulations. McKinsey agrees to indemnify and hold the Client harmless from and against all loss, liability, damage, cost, or expense (including reasonable attorney fees) ("Losses") to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(c) The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) relating to the Services (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services), except to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(d) The Client further indemnifies McKinsey, including any member, officer or employee thereof including but not limited to the Revitalization Coordination role, in any instance where it is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, against judgments, fines, amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with such action, suit or proceeding, unless it acted with bad faith or engaged in intentional misconduct and, with respect to any criminal action or proceeding, unless it knew or should have known the conduct was unlawful. The termination of any act, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that McKinsey (or any of its members, officers or employees) did not satisfy these standards.

Neither party will be liable for any lost profits or other indirect, consequential, incidental, punitive or special damages. In no event shall McKinsey's liability to the Client in connection with the Services relating to an engagement for the Client exceed the amount paid to McKinsey by the Client in connection with such engagement.

8. AUTHORITY OF THE BOARD. The Client represents and warrants it has the authority to enter into this Agreement for the Services. In the event that it is determined that the Client did not have authority to authorize all or part of this agreement, McKinsey may make the sole determination as to whether to terminate the Agreement according to Section 10 herein, or continue with those parts of the Services for which the Client does have authority. The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) resulting from a breach of this Section 8 and/or a misrepresentation by the Client of authority to act (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services).


9. CONFLICTS OF INTEREST. The Client agrees that performance of Services hereunder shall not conflict McKinsey from serving the Government of Puerto Rico or any stakeholders to the work, subject to the restrictions in Section 6 – "Serving Competitors."


10. TERM AND TERMINATION. This agreement takes effect on the date the Services commenced and shall continue until terminated in accordance with its terms. Either party may terminate the Services at any time effective upon 30 days written notice to the other. In the event of any termination, the Client will pay McKinsey for the work completed up to the effective date of termination.

11. MISCELLANEOUS. This agreement and the Proposals constitute the entire agreement between the parties, and there are no prior or contemporaneous oral or written representations, understandings or agreements relating to this subject matter that are not fully expressed herein or therein. This agreement and the Proposals shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of law principles and shall inure to the benefit of and be binding on the successors and assigns of the Client and McKinsey. The following Sections shall survive the completion or any termination of the Services: 3 (Confidentiality), 4 (Intellectual Property), 5 (Disclosure of McKinsey Materials; Publicity), 6 (Serving Competitors), 7 (Indemnification), 8 (Term and Termination) and 9 (Miscellaneous) and any other provision which by law or by its nature should survive. Neither party may assign its rights or obligations under this agreement to any person or entity without the written consent of the other party, not to be unreasonably withheld, provided, however, that either party may assign its rights and obligations under this agreement to its affiliates upon reasonable written notice to the other party but without the written consent of the other party. Assignment shall not relieve either party of its obligations hereunder. McKinsey is an independent contractor and not the Client's agent or fiduciary. Notwithstanding any course of dealings of the parties at any time or any statement to the contrary contained therein, no purchase order, invoice or other similar document issued by a party shall be construed to modify the terms of this agreement. Rights and remedies provided in this agreement are cumulative and not exclusive of any right or remedy provided at law or in equity.

The Financial Oversight and Management Board for Puerto Rico
(Client)

McKinsey & Company, Inc., Washington D.C.


Name: Natalie A. Jaresko
Title: Executive Director
Date: Sept. 12, 2017


Name: Tyler Duvall
Title: Partner
Date: September 8, 2017

ATTACHMENT 1
Scope of Work
For
Commonwealth Title III Support

Services:

In regards to support for the Commonwealth Title III proceedings to the Board to include:

Activities:

- Participation in and coordination of cross advisor meetings (Board, Commonwealth and/or Stakeholders) regarding Title III related matters
- Preparation of materials necessary for supporting Fiscal Plan litigation, which could include:
 - Assemble fact base regarding process for creation, stress testing and certification of the fiscal plan
 - Assemble fact base regarding additional analyses created for the FOMB with respect to evaluating/stress testing the FY18 fiscal plan
 - Collect and summarize key input sources and supporting analysis for key fiscal plan assumptions
 - Assemble fact base regarding process and supporting analysis used to identify and evaluate key measures proposed and finally included in the fiscal plan
 - Prepare and/or evaluate alternative fiscal plan scenario analyses in support of requested alternative contexts
 - Prepare analyses in support of litigation activities
- As needed, ad-hoc analyses and/or responses to questions regarding litigation or potential litigation relating to the Fiscal Plan or other Commonwealth Title III matters
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverable:

- Monthly report regarding liquidity performance and strategic choices on liquidity related to Title III proceedings and/or ad hoc analysis performed within that month.

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Commonwealth Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for PREPA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to PREPA, McKinsey will support the Board in the following ways:

1. Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for PREPA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the PREPA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead PREPA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with PREPA, AAFAF and its experts and advisors
- Develop transformation plan for PREPA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Detailed action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required (e.g. updated IRP for PREPA)
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board PREPA subcommittee to provide updates and take guidance on PREPA transformation and Title III
- Monitor implementation of all aspects of the PREPA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance

- Conduct limited market engagement as necessary to identify potential privatization options for PREPA
- Lead development of an integrated resource plan for PREPA to support the Transformation Plan in coordination with PREC and PREPA
- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$740,000 per month and will continue so long as the Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

ATTACHMENT 2
Scope of Work
for
Title III Support for HTA

Services:

In regards to work specifically supporting the Title III proceedings for the Board with relation to HTA, McKinsey will support the Board in the following ways:

Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for HTA

Activities:

The core activities include working directly with the Board, the Executive Director and Board Staff in the following areas (as well as ad hoc and as needed support):

- Establishment of the HTA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead HTA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with HTA, AAFAF and its experts and advisors
- Develop transformation plan for HTA for Title III which includes but is not limited to:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board HTA subcommittee to provide updates and take guidance on HTA transformation and Title III
- Monitor implementation of all aspects of the HTA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance
- Support litigation related to the HTA proceedings, which has commenced

- As applicable to McKinsey's Services regarding FOMB fiscal plans and work relative to the Commonwealth and its instrumentalities, it is the expectation of McKinsey and the Board that as part of the Services McKinsey shall:
 - Provide expert testimony (at most 2 per quarter)
 - Participate in and/or assist the Board with mediation sessions and Board meetings or conferences, which may include presentations
 - Provide support at related stakeholder interactions, which may include presentations

Deliverables:

A monthly report describing progress against transformation objectives, as well as specific supporting analyses, including:

- Detailed action plans, including e.g. structural solutions, governance, likely economic impacts and operational stabilization
- Synopsis of market perspectives related to different potential options
- Integrated resource plan

Support Structure and Cost:

- The cost for this work will be \$720,000 per month and will continue so long as the HTA Title III process continues or the Board no longer believes the support is necessary.
- If additional deliverables are required by McKinsey beyond this core support, this contract will be amended to reflect any required support.

Payment Schedule

McKinsey will submit a Monthly Fee Statement for the deliverables provided on or before the 25th day of each calendar month.

EXHIBIT C

PREPA TITLE III Workstream

Summary of Work

During the month of October, the PREPA Title III Team developed an initial view of PREPA post-hurricane, from a financial, operational, and strategic perspective. From a financial perspective, we estimated the operational funding deficit and reconstruction costs for PREPA resulting from the hurricane, for the seven quarters following the hurricane, for the purposes of a federal funding and loan request. From an operational perspective, we developed the scope, responsibility, and initial roadmap for a PREPA Chief Transformation Officer appointed by the FOMB (note that this appointment was later rejected by the court). Finally, from a strategic perspective, we developed an initial view of the options and costs to rebuild the power grid in Puerto Rico to be resilient for future storms, as well as finalized a draft of the pre-hurricane Transformation Plan.

Detailed Activities by Deliverable

- Developed and updated complete pre-hurricane Transformation Plan draft for federal and other stakeholder briefings on PREPA pre-hurricane state
 - government-drafted materials with content developed on privatization and future generation mix
 - Finalized recommendations for Transformation Plan next steps
 - Developed summary briefing materials
- Estimated PREPA operational funding deficit and reconstruction costs for FY Q2 2018 and through FY Q4 2019 for initial federal funding request
 - Worked in collaboration with PREPA advisors to estimate post-hurricane changes in revenue and operating costs
 - Developed top-down estimate of reconstruction costs based on initial damage report and benchmarked unit costs for system
- Drafted PREPA Interim Manager scope and responsibilities
- Provided Board update on PREPA during PREPA subcommittee meeting including overview of pre-Maria transformation planning efforts; estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Prepared Board-appointed PREPA Chief Transformation Officer for role
 - Outlined organizational structure for CTO support
 - Developed Day 1, week 1, month 1 action plan for CTO
 - Developed avenues to bring utility expertise to CTO role

- Developed initial view of options to re-build a resilient power grid in Puerto Rico
 - Estimated costs and benefits of grid hardening in Puerto Rico
 - Estimated costs and benefits of redesigning the grid to be more resilient (e.g. microgrid locations, generation closer to load centers)
 - Participated in meeting with industry and academic experts on building a resilient power grid in Puerto Rico

Team Detail and Contributions

The McKinsey team was led by Partners (Tyler Duvall, Thomas Dohrmann, Bertil Chappuis, Matt Rogers and Kevin Carmody) and an Expert Associate Partner (Aaron Bielenberg). This leadership team structured the content, provided quality control and stakeholder management as Additional Associate Partners (Amy Wagner and Scott Perl) provided expert content given their extensive experience in the utility sector. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts.

■ **Bertil Chappuis (Senior Partner):**

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Weekly Executive Board and PREPA subcommittee meetings to review progress and advise on key PREPA decisions
- Weekly conversations with McKinsey leadership, clients and team members to address key emerging issues
- Guided re-scoping of PREPA transformation plan work in aftermath of Hurricane Maria to address catastrophic damage to PREPA assets

■ **Thomas Dohrmann (Senior Partner)**

- Participated in discussions with Executive Director and Board to review progress and advise on key decisions
- Provided expertise related to FEMA and HUD disaster recovery funding

■ **Matt Rogers (Senior Partner)**

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors

■ **Tyler Duvall (Partner)**

- Engaged in regular problem-solving sessions with team to guide work and address cross team issues
- Helped brief Board staff and PREPA subcommittee on findings, issues and initiatives
- Reviewed and provided input for all team deliverables (in particular, Board update, interim manager scope)
- Led regular conversations with McKinsey leadership, clients and team members to address key emerging issues
- Provided expertise related to potential Federal support

■ **Aaron Bielenberg (Associate Partner)**

- Weekly conversations with Board members, Executive Director and staff to evolve PREPA Title III strategy and approach
- Twice-weekly problem-solving sessions with team to guide work and address cross team issues
- Guided development of 1-quarter, 7-quarter, and 5-year liquidity models for PREPA following hurricane Maria to assess impact on PREPA liquidity and provide input into Commonwealth liquidity analysis
- Guided development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Guided Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Guided development of interim manager / CTO scope, responsibilities, and preparation

■ **Amy Wagner (Associate Partner)**

- Provided expert support on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria

■ **Scott Perl (Associate Partner)**

- Provided expert input on utility operations relevant to the interim manager / CTO scope and responsibilities

■ **Sarah Brody (Engagement Manager)**

- Led development of 1-quarter, 7-quarter, and 5-year liquidity models for PREPA following hurricane Maria to assess impact on PREPA liquidity and provide input into Commonwealth liquidity analysis

- Led development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Developed updated draft of Transformation Plan excluding post-Maria changes
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Developed draft of scope and responsibilities for PREPA Interim Manager

■ **Alex Brihac (Associate)**

- Led development of 7-quarter relief funding gap estimate for PREPA and the Commonwealth following hurricane Maria to assess impact on PREPA and Commonwealth liquidity
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board
- Developed initial perspective on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Developed draft of scope and responsibilities for PREPA Interim Manager

■ **Maria Bernier (Business Analyst)**

- Developed initial perspective on options to rebuild the power sector in Puerto Rico following hurricane Maria to provide perspective on PREPA Transformation Plan revisions for Title III following hurricane Maria
- Developed updated draft of Transformation Plan excluding post-Maria changes
- Prepared Board update on PREPA, including overview of pre-Maria transformation planning efforts, estimate of damage and repair costs; outline of key Board decisions on Fiscal Planning, interim manager appointment, privatization, and short and long-term reconstruction; and immediate next steps for Board

Commonwealth Title III Workstream

Summary of Work

During the month of October, the Commonwealth Title III team drafted and engaged with the government and its advisors to refine a seven quarter liquidity need estimate for the government of Puerto Rico through Q4 FY 2019; coordinated the review of monthly reports produced by AAFAF relating to cash flow and disaster relief funding; assessed the PR government's estimates of cash balances; commenced planning for Creditor and Public Listening Sessions in November and December 2017; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process.

The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation.

The October work sets the stage for numerous creditor and public engagement sessions in Fall 2017, a more accurate understanding of the post-Maria cash flow trends of the Puerto Rico government, and a review of the upcoming Fiscal Plan revision in January 2018 and beyond.

Detailed Activities by Deliverable

- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Commenced planning for Creditor Session, Creditor Economist Session and public Listening Session in November and December 2017
- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters
 - Drafted and revised Section 205 letters in conjunction with FOMB staff
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and coordinating the posting of the responses to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Conducted research and preliminary analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
 - Developed high-level milestones and plan for submission of revised Fiscal Plan based on FOMB guidance

- Ad-hoc analyses and Board meeting support
 - Prepare ad-hoc analyses regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Preparation for and attendance at the Public Board Meeting on October 31
- Report(s) regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in several cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Prepared updated post-hurricane Commonwealth liquidity needs assessment to incorporate greater detail and refined assumptions for FOMB
 - Participated in discussions with US Treasury in support of FOMB/government analysis regarding short-term liquidity financing needs for Puerto Rico

Team Detail and Contributions

The McKinsey team was led by Partners (Bertil Chappuis, Thomas Dohrmann, Kevin Carmody and Tyler Duvall) and a Senior Vice President (Ojas Shah). The leadership team oversaw the team's work, provided quality control and led stakeholder management. An additional Associate Partner (Todd Wintner) provided expert content. The Working team consisted of a day-to-day Engagement Manager and two full-time Associates and Business Analysts and some occasional support from other team members as described below.

- **Bertil Chappuis (Senior Partner)**
 - Participated in weekly Executive Board calls to review progress and advise on key decisions (in particular, in response to Hurricane Maria aftermath)
 - Review and input for all team deliverables (in particular, short term liquidity needs post hurricane, initial assessment of fiscal plan impacts including macro assumptions).
 - Sourced various data sources to inform macro assumptions eg interviewees in local business community, Facebook data agreement etc.
 - Participate in multiple individual discussions with outside stakeholders to understand and inform Board strategy and approach after the hurricane (eg NGOs, business owners, community leaders) on the situation on the ground
- **Thomas Dohrmann (Senior Partner)**
 - Participated in discussions with Executive Director and Board to review progress and advise on key decisions
 - Supported team in problem solving related to updated baseline macro forecast and fiscal plan

- Reviewed presentations and team deliverables, including short term liquidity post hurricane

■ **Kevin Carmody (Senior Partner)**

- Participated in discussions related to development of financial projections and funding requirements for Puerto Rico
- Participated in advisor meetings and calls related to fiscal plan & projected liquidity requirements
- Reviewed FOMB presentation materials and supporting analyses

■ **Tyler Duvall (Partner)**

- Helped lead Board and FOMB team meetings
- Supported team in problem solving sessions related to updating fiscal plan assumptions and content
- Provided expertise related to Federal recovery funding and requirements
- Reviewed FOMB presentation materials and supporting analyses

■ **Ojas Shah (Senior Vice President)**

- Led discussions in Board and Executive Director calls regarding updates for CW Title III related matters and analyses
- Oversaw development of short-term/intermediate term financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico
- Led discussions with government and government advisors to prepare joint assessment of short-term liquidity needs for Commonwealth post hurricane Maria
- Coordinated and participated in cross advisor meetings (Board and Commonwealth) regarding Title III and Commonwealth Fiscal Plan/liquidity requirement matters
- Led FOMB and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
- Reviewed and provided inputs to materials for and attended public FOMB board meeting on October 31

■ **Todd Wintner (Associate Partner)**

- Directed team assessing fiscal measures contained in the March 13th Certified Fiscal Plan to reflect both magnitude of impact and feasibility of implementation of such measures post-hurricane
- Liaised with Government to incorporate updated data (e.g., healthcare population assumptions) and other inputs relevant to fiscal reform assessment and revisions

- Reviewed full certified March 13th Fiscal Plan revenue and expenditure build (business-as-usual baseline) to identify major areas of impact post-Hurricane (e.g., based on population changes / movements, infrastructure impacted, etc.)

■ **Alexey Sosnovskiy (Engagement Manager)**

- Coordinated feedback and revised post-hurricane liquidity needs assessment for the Commonwealth, including population trends, consumption and business activity, and disaster relief assumptions
- Coordinated collection and development of responses to additional creditor questions related to mediation sessions

■ **Elliott Neal (Engagement Manager)**

- Assessed magnitude of potential insurance payouts to government entities associated with Hurricane Irma/Maria recovery
- Oversaw development of short-term/intermediate term financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico
- Participated in discussions with government advisors regarding short-term liquidity needs analysis for the Commonwealth post Hurricane Maria
- Prepared materials and participated in Board and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses

■ **Justin Reed (Senior Associate)**

- Supported update of Commonwealth liquidity need analysis to incorporate latest disaster recovery estimates and updated macro assumptions
- Developed analysis mapping appropriations to key expense line items in fiscal plan to assess total Commonwealth expenses and hurricane impacts
- Prepared analysis of fiscal plan data which segregated Commonwealth revenues and expenses by key agency
- Prepare ad-hoc analysis regarding possible updates to fiscal plan baseline assumptions (macro, revenue, and expenses)
- Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts with Government advisors

■ **Julien Truchon-Poliard (Associate)**

- Developed case studies of disaster recovery experience in Sierra Leone and Mexico
- Analyzed best practices in preventing fraud, waste and abuse in post-disaster fund disbursement
- Analyzed best practices in project funding from Millennium Challenge Corporation and lessons learned from New York post-Sandy Build It Back program

- Prepared materials for potential questions and answers related to Commonwealth liquidity position and other Title III related topics

■ **Zarif Jamil (Senior Business Analyst)**

- Coordinated preparation of responses to mediation questions from creditors assigned to FOMB advisors
- Supported the co-development of the Commonwealth's post-Maria liquidity funding request to US Treasury
- Supported the development of a milestone plan to revise the existing fiscal plan
- Coordinated planning for public Listening Session and Creditor Session in November 2017

EXHIBIT D

October 2017 Invoices

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC012-4790

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Litigation
Effective Agreement Date: July 3, 2017

Invoice Date: 12/22/2017

Net 30

FFP Payment Schedule

Monthly Fee for PREPA at \$740,000 per month

Invoice PoP: October 1, 2017 – October 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	710,400.00
Gross invoice amount for services performed in Puerto Rico:	\$	41,690.14
Subtotal	\$	752,090.14
Less withholding tax deducted at source	\$	(12,090.14)
Net Invoice Payable:	\$	740,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or
Jordan Mandell 202-662-0938.

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC013-4791

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Litigation
Effective Agreement Date: July 3, 2017

Invoice Date: 12/22/2017

Net 30

FFP Payment Schedule

Monthly Fee for Commonwealth at \$740,000 per month

Invoice PoP: October 1, 2017 – October 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	710,400.00
Gross invoice amount for services performed in Puerto Rico:	\$	41,690.14
Subtotal	\$	752,090.14
Less withholding tax deducted at source	\$	(12,090.14)
Net Invoice Payable:	\$	740,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or
Jordan Mandell 202-662-0938.

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re: PROMESA
Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.¹

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**CONSOLIDATED THIRD MONTHLY FEE STATEMENT OF MCKINSEY &
COMPANY, INC. WASHINGTON D.C. FOR COMPENSATION FOR
SERVICES RENDERED FROM NOVEMBER 1, 2017 THROUGH JANUARY 31, 2018**

Name of Professional: McKinsey & Company, Inc. Washington D.C.
("McKinsey")

Authorized to Provide Services to: The Financial Oversight and Management Board for
Puerto Rico, as Representative of the Debtors
Pursuant to PROMESA Section 315(b)

Period for which compensation
and reimbursement is sought: November 1, 2017 – January 31, 2018

Amount of compensation sought
as actual, reasonable and necessary: **\$5,810,000**

Amount of expense reimbursement sought
sought as actual, reasonable and necessary²: **\$0.00**

Type of Fee Statement: Consolidated Third Monthly Fee Statement:
Commonwealth Title III Support³

¹ The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); and (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

² McKinsey provides services on a fixed fee basis, and as such, seeks no reimbursement of expenses.

³ Notice of this Consolidated Third Monthly Fee Statement (as defined herein) has been served in accordance with the Interim Compensation Order (as defined herein) and objections to payment of the amounts described in this Monthly Fee Statement shall be addressed in accordance with the Interim Compensation Order.

1. Pursuant to the *First Amended Order Setting Procedures for Interim Compensation and Reimbursement of Expenses of Professionals*, entered on November 8, 2017 [Docket Number 1715] (the “Interim Compensation Order”), the applicable provisions of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and the Local Bankruptcy Rules for the United States Bankruptcy Court for the District of Puerto Rico (the “Local Rules”), McKinsey & Company, Inc. Washington DC (“McKinsey”), strategic consultants to The Financial Oversight And Management Board For Puerto Rico (the “Debtors” or the “Board”), hereby serves this Consolidated Third Monthly Fee Statement for the allowance of compensation for reasonable and necessary strategic consulting services and support that McKinsey provided during the months of November 2017, December 2017 and January 2018 (the “Fee Period”) pursuant to the “Commonwealth Title III Support” Scope of Work of the consulting agreement entered into between McKinsey and the Board on or about and July 3, 2017 for consulting services in support of the Title III litigation, as amended effective November 1, 2017 (the “Consulting Agreement”) and attached hereto as Exhibit A. Pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, a Certification of Tyler Duvall, a Partner of McKinsey, regarding compliance with the statutory and legal authority cited above is attached hereto as Exhibit B.
2. By this Consolidated Third Monthly Fee Statement: Commonwealth Title III Support, McKinsey seeks allowance of compensation for services rendered under the Consulting Agreement during the Fee Period in the amount of \$5,229,000 (which equals 90% of the compensation sought herein, in accordance with Section 2.c of the Interim Compensation Order).

Summary of Services Rendered During the Fee Period

3. During the Fee Period, McKinsey provided a focused range of professional services as requested by the Board and reflected in the Consulting Agreement Scope of Work for Consulting Agreement Commonwealth Title III Support.³
4. Included at Exhibit C is a detailed summary of McKinsey's scope of services, deliverables and team member activities performed pursuant to the Commonwealth Title III Support Scope of Work during the Fee Period.
5. Included at Exhibit D is a copy of McKinsey's monthly invoice⁴ for fees incurred during the Fee Period pursuant to the Consulting Agreement in support of the Commonwealth Title III Scope of Work. McKinsey's fees – as reflected in the invoices – are based on the usual and customary fees McKinsey charges to clients and are commensurate with the services performed. As reflected in Exhibit D, McKinsey incurred \$5,810,000 in fees during the Fee Period, and now seeks reimbursement for 90% of such fees (\$5,229,000).
6. The efforts expended by McKinsey during the Fee Period have been commensurate with the size and complexity of these cases. In rendering these services, McKinsey has made every effort to maximize the benefit to the Debtors, to work efficiently with the other professionals employed in these cases, and to leverage staff appropriately in order to minimize duplication of effort.

³ McKinsey is simultaneously serving separate consolidated monthly fee statements for services rendered pursuant to the other two (2) Scopes of Work under the Consulting Agreement.

⁴ The invoice included at Exhibit D reflects Puerto Rico withholding tax (29%), which is applicable to payments for services performed in Puerto Rico. In accordance with the terms of the Consulting Agreement, McKinsey has calculated the proportion of fees attributable to work performed in Puerto Rico and determined the applicable tax to be withheld by the client for payment to the Puerto Rico tax authorities. The net amount reflected on the invoice to be collected by McKinsey is consistent with the terms of the Consulting Agreement.

7. McKinsey respectfully submits that the amounts applied for herein for professional services rendered on behalf of the Board in these cases to date are fair and reasonable given: (a) the time expended; (b) the nature and extent of the services performed at the time at which such services were rendered; and (c) the value of such services.

Representations

8. While every effort has been made to include all fees incurred by McKinsey during the Fee Period, some fees may not be included in this Consolidated Third Monthly Fee Statement: Commonwealth Title III Support due to certain unavoidable delays caused by accounting and processing during the Fee Period. McKinsey reserves the right to make further application(s) for allowance of such fees not included herein. Subsequent fee statements and applications will be filed in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and the Interim Compensation Order.

Notice

9. Notice of this Consolidated Third Monthly Fee Statement: Commonwealth Title III Support has been or will be provided by overnight delivery to:

FOMB:

Financial Oversight and Management Board
40 Washington Square South
Office 314A
New York, NY 10012
Attn: Professor Arthur J. Gonzalez
FOMB Board Member

Co-Counsel for FOMB:

Proskauer Rose LLP
Eleven Times Square
New York, NY 10036

Attn: Martin J. Bienenstock, Esq.
Ehud Barak, Esq.
and
Proskauer Rose LLP
70 West Madison Street, Chicago, IL 60602
Attn: Paul V. Possinger, Esq.

Co-Counsel for FOMB:

O'Neill & Borges LLC
250 Muñoz Rivera Ave.
Suite 800
San Juan, PR 00918
Attn: Hermann D. Bauer, Esq.

Counsel for AAFAF:

O'Melveny & Myers LLP
Times Square Tower, 7 Times Square
New York, NY 10036
Attn: John J. Rapisardi, Esq.
Suzanne Uhland, Esq.
Diana M. Perez, Esq.

Office of United States Trustee:

Office of the United States Trustee for the District of Puerto Rico
Edificio Ochoa, 500 Tanca Street, Suite 301
San Juan, PR 00901
(In re: Commonwealth of Puerto Rico)

Co-Counsel for the Official Committee of Unsecured Creditors:

Paul Hastings LLP
200 Park Avenue
New York, NY 10166
Attn: Luc. A. Despins, Esq.
Andrew V. Tenzer, Esq.
Michael E. Comerford, Esq.
G. Alexander Bongartz, Esq.
and
Casillas, Santiago & Torres, LLC (Proposed)
El Caribe Office Building
53 Palmeras Street, Ste. 1601
San Juan, Puerto Rico 00901-2419
Attn: Juan J. Casillas Ayala, Esq.
Diana M. Batlle-Barasorda, Esq.
Alberto J. E. Añeses Negrón, Esq.
Ericka C. Montull-Novoa, Esq.

Co-Counsel for the Official Committee of Retired Employees:

Jenner & Block LLP
919 Third Ave.
New York, NY 1022-3908
Attn.: Robert Gordon, Esq.
Richard Levin, Esq.
and
Bennazar, Garcia & Millian, C.S.P.
Edificio Union Plaza, PH-A Piso 18
Avenida Ponce de Leon #416
Hato Rey, San Juan
Puerto Rico 00918
Attn.: A.J. Bennazar- Zequeira, Esq.

Fee Examiner:

Brady Williamson
One East Main Street, Suite 500
Madison, WI 53703-3300

WHEREFORE, McKinsey respectfully requests payment by the Debtors of \$5,229,000,
representing 90% of its fees incurred during the Fee Period and requested herein.

Dated: March 16, 2018
Washington DC

McKinsey & Company, Inc. Washington DC

s/Tyler Duvall
Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC
1200 19th St NW #1000
Washington, DC 20036
Telephone: (202) 662-3100
Email: Tyler_Duvall@Mckinsey.com

Strategic Consultant to the Debtors

EXHIBIT A

Consulting Agreement, as Amended Effective November 1, 2017
Statement of Work for Commonwealth Title III Support

**FIRST AMENDMENT TO CONSULTING AGREEMENT
BETWEEN MCKINSEY & COMPANY, INC. WASHINGTON DC AND
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO
FOR STRATEGIC CONSULTING SUPPORT RE COMMONWEALTH TITLE III SUPPORT**

THIS FIRST AMENDMENT to the Consulting Agreement (the "First Amendment") effective date of November 1, 2017 is entered into by and between McKinsey & Company, Inc. Washington D.C. ("McKinsey") and The Financial Oversight and Management Board for Puerto Rico (the "Board" or the "Client") (together, the "Parties").

WHEREAS, on or about July 3, 2017, McKinsey and the Board entered into a Consulting Agreement (the "Consulting Agreement") for strategic consulting support related to Commonwealth Title III Support (the "Services"); and

WHEREAS, following Hurricanes Maria and Irma, the Parties wish to expand the scope of services under the Consulting Agreement to support the Board's in connection with the required re-construction of the fiscal plan post-Hurricane; and

WHEREAS, the Parties now desire to amend the Consulting Agreement to reflect the new understanding between the Parties as set forth below;

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties hereto agree as follows:

1. SERVICES.

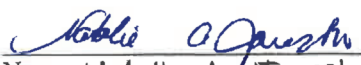
"Attachment 1 Scope of Work for Commonwealth Title III Support" of the Consulting Agreement is hereby replaced in its entirety with the "Amended Attachment 1 Scope of Work for Commonwealth Title III Support", attached hereto; and "Attachment 3 Scope of Work for Title III Support for HTA" of the Consulting Agreement is hereby replaced in its entirety with the "Amended Attachment 3 Scope of Work for Title III Support for HTA", attached hereto. For the avoidance of confusion, "Attachment 2 Scope of Work for Title III Support for PREPA" of the Consulting Agreement shall remain unchanged. If additional activities and/or deliverables are required outside of those described herein, the Parties will negotiate a further amendment to reflect that support.

11. MISCELLANEOUS.

This First Amendment, when executed by the Parties, shall be effective as of the date stated above. All understandings and agreements heretofore had between McKinsey and the Board with respect to the Services are merged into, or superseded by, this First Amendment. This First Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. Except as amended and/or modified by this First Amendment, all other terms of the Consulting Agreement shall remain in full force and effect, unaltered and unchanged by this First Amendment.

IN WITNESS WHEREOF, the parties have executed this First Amendment, effective as of the date indicated above.


**The Financial Oversight and Management Board
For Puerto Rico**


Name: Natalie A. Jaresko

Title: Executive Director

Date:

McKinsey & Company, Inc., Washington D.C.


Name: Tyler Duval

Title: Principal

Date: March 8, 2018

AMENDED ATTACHMENT 1
Scope of Work For Commonwealth Title III Support

PERIOD OF PERFORMANCE:

November 1, 2017 – March 31, 2018

SCOPE:

Support for the Commonwealth Title III proceedings to the Board to include the following:

I. Measure:

- Revising fiscal measures contained in the March 13th Certified Fiscal Plan to reflect both magnitude of impact and feasibility of implementation post-hurricanes
- Developing new and augmented measures (e.g., agency-specific right-sizing measures) to achieve structural balance in post-hurricanes fiscal projections, including savings attributable to workflow reduction and demographic shifts
- Liaising with Government to incorporate updated data (e.g., healthcare population assumptions) and other inputs relevant to fiscal reform revisions
- Providing perspective on implementation planning and necessary support required for high-priority measures
- Coordinating weekly problem solving with FOMB staff, FOMB leadership and Board members, as needed
- Preparing documents and other support for listening session dedicated to measures redevelopment
- Providing Independent Board perspective of potential revised fiscal reforms, including measure-specific targets and initiatives to capture fiscal value
- Preparing presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
- Providing support models and documentation for sizing of specific levers

II. Baseline and Macro:

- Reviewing full certified March 13th Fiscal Plan revenue and expenditure build (business-as-usual baseline) to identify major areas of impact post-Hurricane (e.g., based on population changes / movements, infrastructure impacted, etc.)
- Working with Board demographers and macroeconomists to triangulate major macroeconomic, rev/exp build assumptions across top-down and bottom-up data sources (incl., reports, real-time data, expert interviews) to identify new figures to represent major factors / assumptions
- Ensuring any new assumptions are incorporated within the comprehensive fiscal model
- Preparing documents and other support for listening session dedicated to macroeconomic, rev/exp build assumptions
- Providing Independent Board perspective on updated fiscal plan baseline in post-Maria context
- Preparing presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
- Providing support models and documentation for new baseline

III. Advisor, Stakeholder, Litigation Support and Fiscal Plan Model:

- Prepare content, participate in, coordinate and lead cross advisor meetings and support stakeholder interactions
- Prepare content, participate in and advise the FOMB with respect to mediation sessions and Board meetings
- Continue development and refinement overall fiscal plan model working with Board staff, the Board and the Government
- Perform scenario analyses as requested by FOMB to assess impact of Hurricane Irma/Maria to Fiscal Plan

- Lead coordination with government advisors and government representatives on development, review and FOMB certification of any revised/new fiscal plan(s) and/or supporting materials
- Ad-hoc analyses and/or responses to questions regarding litigation and potential litigation related to Fiscal Plan and CW Title III
- Where required, provide expert testimony on the Fiscal Plan (2 per quarter) as well as analytical support for such expert testimony.

FEEES AND INVOICING:

McKinsey will be compensated on a firm fixed price basis, and will submit invoices monthly for services provided during that month, as set forth in the payment schedule below:

Period of Performance	Fee
November 2017	\$2,220,000
December 2017	\$1,650,000*
January 2018	\$1,940,000
February 2018	\$1,940,000
March 2018	\$1,940,000

* McKinsey's monthly fixed fee for December 2017 has been prorated to reflect a shorter working month in light of the holidays and office closure.

McKinsey will submit invoices (Monthly Fee Statement) on a monthly basis, on or before the 25th day of each calendar month following the month during which the services were performed.

AMENDED ATTACHMENT 3
Scope of Work For Title III Support for HTA

PERIOD OF PERFORMANCE:

November 1, 2017 – March 31, 2018

SCOPE:

In regards to work specifically supporting the Title III proceedings for the Board with relation to HTA, McKinsey will support the Board in the following ways:

- Coordinate and provide analysis related to development of the transformation plan and plan of arrangement for HTA
- Establishment of the HTA working group for Title III, including working group protocol, governance, cadence, targets and coordination
- Lead HTA working group for Title III, including leading meetings, developing core materials, workplans, agendas and coordination with HTA, AAFAF and its experts and advisors
- Develop transformation plan for HTA for Title III to include:
 - Operational stabilization plans focused on near and immediate term actions to maintain sustainable operations and launch capex programs with specific implementation plans, resourcing and costing supporting their delivery
 - Debt restructuring terms and plans, agreed with creditors to the extent possible
 - Detailed privatization/corporatization plans supported by financial models and market engagement
 - Action plans to implement all measures identified in the Fiscal Plans with additional measures to achieve Board targets
 - Governance and management plans that will enable delivery of actions
 - Stakeholder management plans and demonstrable success in engaging key stakeholders such as regulators
 - Macro-resource planning when required
 - Clear assessments of economic and social impacts on the people of Puerto Rico
 - Clear timelines for delivery of the plan
- Coordinate development of and approval by the Board of other submissions related to the Title III proceedings, including Plans of Arrangements, financial disclosure, implementation plans, contract assumption and rejection
- Work with Board management and Board HTA subcommittee to provide updates and take guidance on HTA transformation and Title III
- Monitor implementation of all aspects of the HTA transformation plans and Title III plans
- Escalating deviations from plans and defining solutions for compliance

FEES AND INVOICING:

McKinsey will be compensated on a firm fixed price basis, and will submit invoices monthly for services provided during that month, as set forth in the payment schedule below:

Period of Performance	Fee
October 2017	\$0*
November 2017	\$300,000**

December 2017	\$300,000**
January 2018	\$425,000
February 2018	\$425,000
March 2018	\$425,000

McKinsey will submit invoices monthly, on or before the 25th day of each calendar month following the month during which the services were performed.

*Due to the slow ramp up of work related to HTA post-Hurricane, McKinsey did not perform significant HTA-related work in October (under Attachment 3 Scope of Work for Title III Support for HTA of the Consulting Agreement) and has agreed to invoice \$0 for that month.

** For November and December, McKinsey performed two (2) weeks of work per month, and has agreed to invoice \$300,000 for each month (based on McKinsey's standard \$150,000/week team bundle rate).

EXHIBIT B

Certification of McKinsey Partner Tyler Duvall

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

-----X

In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.* (Jointly Administered)

Debtors.

-----X

CERTIFICATION OF TYLER DUVAL

I, Tyler Duvall, hereby declare the following under penalty of perjury:

1. I am one of the McKinsey Partners providing consulting services related to the above-captioned Title III case.
2. I have personally performed many of the professional services rendered by McKinsey as strategic consultant to the Debtors and am familiar with all other work performed on behalf of the Debtors by the Partners, Associates, and other persons in the Firm.
3. The facts set forth in the foregoing Consolidated Third Monthly Fee Statement: Commonwealth Title III Support are true and correct to the best of my knowledge, information, and belief.
4. I have reviewed the Interim Compensation Order and believe that McKinsey's Consolidated Third Monthly Fee Statement: Commonwealth Title III Support complies therewith.

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: March 16, 2018
Washington, DC

s/Tyler Duvall

Tyler Duvall
Partner
McKinsey & Company, Inc. Washington DC

EXHIBIT C

Title III Support for Commonwealth

November 2017

Summary of Work

During the month of November work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor, Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The measures team conducted deep, agency-level measure analyses to develop the Board's perspective on the how the fiscal reforms contained in the March 13th Certified Fiscal Plan might be revised to reflect both magnitude of impact and feasibility of implementation post-hurricanes. The work consisted of two major buckets of analysis:

- (1) adapting certified measures for both revenue enhancement and cost containment to reflect both the magnitude and timing feasible in a post-storm environment;
- (2) beginning the process of developing new measures identified since plan certification, including those made possible by demographic shifts and structural damage as a result of the storms.

The baseline team conducted research, driving deep macroeconomic analysis, and worked with the FOMB and government economists to estimate the future macroeconomic projections for the island. This included analyzing impacts on revenue and expenditure projections in order to arrive at a post-Maria fiscal plan baseline.

The stakeholder engagement and modeling team refined the seven quarter liquidity estimate of the Puerto Rico government through Q4 FY 2019; coordinated the production of monthly reports by AAFAF relating to cash flow and disaster relief funding; refined the PR government's publicly disclosed estimates of cash balances; began a Fiscal Plan Entity Mapping assessment; executed a Creditor Session and two Public Listening sessions; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process. The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation

McKinsey's Commonwealth Title III Team Detailed Activities by Deliverable:

- Independent Board perspective of potential revised fiscal reforms, including measure-specific targets and initiatives to capture fiscal value
 - Evaluated revenues measures in the post-Maria context, adjusting models to account for lower baseline revenues and identifying the most relevant initiatives that might be applied in a post-hurricane context;
 - Identified new potential measures for revenue enhancement, such as linking disaster fund allocation eligibility to proven tax compliance;
 - Performed analysis to estimate potential extent of K-12 school consolidation over the 5-year period using school-specific enrollment data, current district definitions, emigration assumptions, and standard benchmarks e.g., class size;
 - Performed analysis to estimate potential extent of prison consolidation over the 5-year period using prison-specific capacity and utilization data, standard benchmarks for utilization, and assumed inmate to FTE ratios;
 - Compared contracted prisoner healthcare costs with standard benchmarks in other states to identify opportunity;
 - Reviewed healthcare measures for likely adjustments from original fiscal plan, including incorporating updated PMPM data from government actuarial advisor, interviewing experts on likely changes in need to the system in a post-hurricane environment;
 - Reviewed Government's plan to improve the operations of ASEM including revenue cycle improvement;
 - Interviewed experts on mergers and acquisitions on best practices for synergy capture in agency integrations; identified specific levers and examples that may demonstrate opportunity in various agencies;
 - Assessed the potential reduction in Government spend that might be attributable to a future consolidation of Government agencies by creating logical groupings of agencies and calculated reductions based on a tiered system (in absence of "New Government" plan that has not yet been provided);
 - Adjusted the anticipated implementation timelines for each measure based on reasonable assumptions for recovery following Hurricane Maria;
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
 - Generated list of potential speakers to share with team organizing listening sessions for measures;
 - Developed high level narrative of approach to redeveloping fiscal measures, based on learnings from the first fiscal plan, to be shared in creditor sessions;
 - Provided information about measures in first fiscal plan based on creditor requests for additional detail in specific areas;

- Held informational interview with Secretary of Education and supporting advisor team to understand long-term strategy, medium-term fiscal opportunities, and short-term plan for the Department;

Participated in review calls with AAFAF advisors to understand progress against and plans for measures in the upcoming submission of the fiscal plan;

- Support models and documentation for sizing of specific measures levers
 - Developed model to estimate anticipated K-12 school consolidation;
 - Developed model to estimate anticipated prison facility consolidation;
 - Developed model to estimate potential capturable value from healthcare measures based on PMPM data, projected population and enrollment changes, and feasible measures;
 - Developed model to estimate potential reductions for each agency grouping likely to be integrated;
- Determined the core macroeconomic and demographic factors that would impact the new Fiscal Plan baseline in a post-Hurricanes Maria and Irma environment
- For each major macroeconomic factor (including, real GNP growth, population, inflation, etc.) and baseline driver (e.g., disaster spend, impact of GNP on revenues, etc.) in conjunction with Board and Government economists:
 - Identified and evaluated key data sources to understand early insights into potential changes in major drivers of the baseline (e.g., IMF Climate Lab Report, Hunter College Report, FEMA reports, PREPA contracts, etc.)
 - Identified and evaluated comparable disaster events to compare to Puerto Rico (e.g., recessions in Ireland, Greece, Spain, U.S.; storms and natural disasters in New Orleans, New York, Grenada, Haiti), and used data to pressure test assumptions
 - Conducted scenario analysis to identify macroeconomic sensitivity to a variety of drivers (e.g., tax revenue elasticity, projected disaster spend and pass-through rate, hurricane impact, etc.) in order to drive the conversation regarding potential assumptions to use in an uncertain environment
- Determined resulting real GNP, population changes, and impacts on revenues and expenditures, e.g.,
 - GNP impact on all tax revenues and other consumption based revenues Population impact on Medicaid, payroll, pensions spend Inflation impact on all expenditures
 - Potential increased cap ex and op ex costs due to scarcity of goods and services as well as damage on island to core infrastructure
- Using March 13 Fiscal Plan baseline as a starting point, updated each model line item to reflect new factors
- Worked with a variety of McKinsey experts, prominent economists, and demographers, to pressure test model assumptions, refine approach, and finalize methodology (e.g., moved from time series analysis to Vector-Auto Regression/ Seemingly Unrelated Regression; pulled in Puerto Rico specific population data)

- Tracked real-time indicators to provide a sense for “what is happening on the ground” in a data poor environment, including
 - Conducting 100 airport interviews at San Juan airport to understand demographics of those leaving the island, as well as intentions to return
 - Utilizing dynamic, real-time social media data to understand connectivity within the island, as well as population flows between Puerto Rico and other cities
 - Conducting an online social media survey to test sentiment in the Puerto Rican population in the U.S. who had left as a result of the storms (e.g., status of family members, desire to return, etc.)
 - Conducting interviews of industry leaders (e.g., real estate, healthcare, retail banking, etc.) to understand industry dynamics in short and long term post-hurricane
- Tracked non-hurricane related factors (e.g., Act 154 policy, Federal Tax Reform, ACA discussions) and analyzed as necessary to understand potential impact on revenues and expenditures in the future
- Prepared and led Executive Director and Board interactions to share insights and tee up key policy decisions related to baseline
- Conducted scenario analyses to measure impact of fiscal measures in time of economic crisis, to inform Board perspective on fiscal plan measures and structural reforms
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on November 9 focused on macroeconomic planning factors, disaster relief assumptions and baseline revenue/expense projections
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day public listening session on November 16 focused on macroeconomic planning factors and disaster relief assumptions
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day creditor session on November 30 focused on fiscal measures
- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters in order to monitor key concerns, align on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Revised Section 205 letters in conjunction with FOMB staff
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and posting the answers to the FOMB’s online data room
- Financial model(s) and analyses requested by the FOMB
 - Conducted research and preliminary analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.

- Developed high-level milestones plan for submission of revised Fiscal Plan based on FOMB guidance
- Expert testimony and analytical support
 - Prepare ad-hoc analysis regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Served as moderator during and provided expert testimony for Creditor Session and public Listening Session
- Monthly report regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Updated the post-hurricane Commonwealth liquidity needs assessment covering the 7 quarter period ending Q4 FY2019 to incorporate greater detail and refined assumptions of the FOMB
 - Participated in discussions with US Treasury in support of FOMB/government analysis regarding short-term liquidity financing needs for Puerto Rico

McKinsey's Commonwealth Title III Team Detail and Contributions

- Bertil Chappuis (Senior Partner)
 - Participated in weekly Executive Board calls to review progress and advise on key decisions
 - Participated in multiple individual discussions with outside stakeholders to understand and inform Board strategy and approach after the hurricane (eg NGOs, business owners, community leaders) on the situation on the ground
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Reviewed and provided feedback regarding agenda and content for FOMB Listening Sessions on November 16 and November 30
- Kevin Carmody (Senior Partner)
 - Reviewed presentation and supporting analyses for meetings with the Board
 - Reviewed short-term/intermediate term financial projections to assess the short-term funding requirements for Puerto Rico
 - Coordinated and participated in cross advisor meetings (Board and Commonwealth) regarding Title III and Commonwealth Fiscal Plan/liquidity requirement matters
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors

- Thomas Dorman (Senior Partner)
 - Participated in working sessions with team regarding the government's fiscal plan assumptions
 - Provided expert input on Board materials on macroeconomic projections and revenue/expenditure measures
 - Provided expertise on global comparable disaster events and impacts
 - Reached out to leading macroeconomic experts to pressure test assumptions
- Tyler Duvall (Partner)
 - Led overall work across all workstreams.
 - Worked extensively with measures team to develop a variety of initiatives to reduce operating expenditures across a variety of agencies
 - Leveraged expertise in procurement, facility O&M opportunities, etc. to optimize savings
 - Supported Board's evaluation of a variety of capital investment opportunities as part of fiscal plan
 - Guided team and participated in weekly Executive Board calls to review progress and advise on key decisions
 - Participated in multiple problem-solving sessions weekly focused on measures and structural reforms
 - Advised Board on federal disaster response and recovery programs for purposes of incorporation into fiscal plan
 - Helped Board prepare for November 9 creditor session
 - Provided day to day counseling to senior clients on Oversight Board and Board staff
 - Worked with fiscal baseline team, providing overall guidance, problem solving support, and expertise
- Jonathan Davis (Partner)
 - Directed work of fiscal baseline team, providing overall guidance, problem solving support, and expertise
 - Led development of Board materials on macroeconomic projections and revenue / expenditure measures
 - Conducted outreach to leading academic tax experts to gather input on potential areas of risk related to export sector tax collections in Puerto Rico
 - Reached out to leading experts on advanced analytics measures of economic activity to test which approaches may be most helpful in measuring emerging conditions in Puerto Rico

- Directed initial research into potential impacts of hurricane on various revenue streams, in light of economic shock, emergency waivers, etc. focusing on US state as well as Caribbean sovereign jurisdictions
- Reached out to private sector insurance experts to ascertain the expected private sector insurance funds that would flow into Puerto Rico post-hurricane
- Participated in key Board and Executive Director meetings to provide expertise and thought partnership
- Provided expertise on a variety of topics, including macroeconomic drivers, global comparable disaster events and impacts, intricacies of tax revenues, etc.
- Jennifer Rost (Partner)
 - Provided key expertise on Board perspective on healthcare system impacts post-Maria, including implications for Medicaid, provider networks, and rates, to inform Fiscal Plan baseline healthcare expenditure projections
- Ojas Shah (Senior Vice President)
 - Led discussions in Board and Executive Director calls to regarding updates regarding CW Title III related matters and analyses
 - Prepare for and participate in November 9 creditor session
 - Support preparation and attended November 16 and November 30 stakeholder listening sessions
 - Oversaw revision and refinement of short-term/intermediate term financial projections to assess the short-term funding requirements for Puerto Rico
 - Led discussions with government and government advisors to revise joint assessment of short-term liquidity needs for Commonwealth post hurricane Maria
 - Coordinated and participated in cross advisor meetings (Board and Commonwealth) regarding Title III and Commonwealth Fiscal Plan/liquidity requirement matters
 - Led discussions with FOMB and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
- Todd Wintner (Associate Partner)
 - Provided key expertise to develop Board perspective on expenditures baseline, including key changes in departmental costs (cap ex, op ex), personnel costs (e.g., payroll, pensions), programmatic costs (e.g., Medicaid), and other key model line items and inputs
 - Helped lead content creation on key documentation and participated in key Board and Executive Director interactions
- Sara O'Rourke (Engagement Manager)
 - Managed working team across all topic areas, and drove progress on the ground (scoping work, determining workplan, scheduling key touchpoints, pulling in expertise where needed)

- Reviewed and conducted quality control for key documentation for Board / Executive Director interactions, as well as for external stakeholders (e.g., public board meetings, listening sessions, creditor sessions)
- Served as primary contact for all McKinsey Title III teams for Board, Executive Director & staff; as well as point of contact for baseline team in all external stakeholder interactions
- Prepared presentations for and presented key content for Executive Director and Board
- Managed relationships and worked closely with Board and Government economists to finalize estimations
- Kari Hernandez (Engagement Manager)
 - Managed measures working team across all topic areas, pressure testing assumptions and feasibility of pre-existing and new potential measures
 - Served as primary contact for measures for Government and advisors, including reviewing interim Government presentations on measure development
 - Coordinated materials to be used for internal (e.g., updates to Executive Director) and external audiences (e.g., listening sessions and creditors)
 - Participated in weekly Board calls and Subcommittee calls to present the work of the team and address outstanding questions from the Board about measures re-development
- Elliott Neal (Engagement Manager)
 - Oversaw refinement of seven quarter and other financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico
 - Participated in discussions with government advisors regarding short-term liquidity needs analysis for Commonwealth post hurricane Maria
 - Participated in discussions with government advisors regarding development and refinement of a cash balance analysis for the commonwealth
 - Prepared materials and participated in Board and Executive Director calls to provide updates regarding Title III Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
 - Coordinated between FOMB and AAFAF to facilitate the issuance of monthly cash flow, liquidity, budget-to-actual and disaster relief funding reports as requested by the FOMB in fall 2017; compiled memo summarizing key data trends for review by FOMB board members
- Justin Reed (Senior Associate)
 - Created revised Fiscal Plan model framework to be used in assessing various financial scenarios based on the FOMB's view of Puerto Rico's long-term recovery path
 - Supported update of Commonwealth liquidity need analysis to incorporate latest disaster recovery estimates and updated macro assumptions

- Refined analysis mapping appropriations to key expense line items in fiscal plan to assess total Commonwealth expenses and hurricane impacts
- Refined analysis of fiscal plan data segregating Commonwealth revenues and expenses by key agency
- Finalized ad-hoc analysis regarding possible updates to fiscal plan baseline assumptions (macro, revenue, and expenses)
- Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts with Government advisors
- Andrew Mayock (Associate)
 - Assessed opportunity for K-12 school consolidation, including development of model, identification of comparable systems in other states, conducting of expert interviews, liaising with McKinsey research team to select relevant benchmarks;
 - Assessed opportunity for K-12 administrative structure consolidation
 - Estimated potential procurement savings in Education department using relevant benchmarks and savings achieved in other cases
- Sarah Esty (Associate)
 - Assessed potential revenues measures
 - Reviewed healthcare measures and incorporated updated information and assumptions about the likely future of the system
 - Conducted expert interviews and liaised with research team to understand likely impacts of the hurricane on health outcomes on the island
 - Coordinated with pensions advisor to update model to reflect new population assumptions and social security enrollment costs
- Julien Truchon-Poliard (Associate)
 - Trained FOMB staff on liquidity tracking processes and transferred responsibility for those processes to FOMB staff
 - Coordinated with FOMB staff and government advisors to refine the Commonwealth's cash balance inventory analysis
 - Prepared materials for potential questions and answers related to Commonwealth liquidity position and other Title III related topics
 - Supported planning to facilitate an all-day creditor session on November 9 focused on macroeconomic planning factors, disaster relief assumptions and baseline revenue/expense projections
- Justin Collins (Associate who assumed Julien Truchon's role)
 - Trained FOMB staff on liquidity tracking processes and transferred responsibility for those processes to FOMB staff
 - Coordinated with FOMB staff and government advisors to refine the Commonwealth's cash balance inventory analysis with an emphasis on a seven quarter liquidity analysis

- Prepared materials for potential questions and answers related to Commonwealth liquidity position and other Title III related topics
- Zarif Jamil (Senior Business Analyst)
 - Coordinated preparation of responses to mediation questions from creditors assigned to FOMB advisors
 - Supported the refinement of the Commonwealth's post-Maria liquidity funding request to US Treasury
 - Supported the development of a milestone plan to revise the existing fiscal plan
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on November 9 that focused on macroeconomic planning factors, disaster relief assumptions and baseline revenue/expense projections
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day creditor session on November 16 that focused on macroeconomic planning factors and disaster relief assumptions
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day creditor session on November 30 that focused on fiscal measure
- Auden Laurence (Analyst)
 - Responsible for analysis of expenditures baseline, including major impacts to payroll, cap ex, op ex, and Medicaid expenditures
 - Drove analysis on key tax revenue streams for revenue baseline (e.g., non-resident withholdings, Act 154, excise taxes, etc.)
 - Co-owned model, updating key assumptions and methodologies based on hurricane impacts to drive new projections
 - Managed integration with measures team on core overlapping areas, including definition of baseline versus measures impacts on core sectors (e.g., healthcare, education)
- Adam Gerard (Analyst)
 - Conducted core research to drive macroeconomic thinking on baseline, including all research into global comparable disaster events, historical data on GNP, and potential reports and research to drive macroeconomic assumptions
 - Helped lead problem solving with economists to drive new insights and refine model and final projections
 - Conducted scenario analysis of core drivers of the model, and ensured updated assumptions were incorporated
 - Led gathering of real time data through interviews, surveys, research, etc.
- Irfan Mahmud (Analyst)
 - Assessed opportunity for prison facility consolidation, prisoner healthcare procurement savings

- Developed preliminary fiscal target setting approach for agencies without specific measure buildups and synthesized expert opinion on how to generate value from agency integrations synergy capture best practice research
- Evaluated potential savings deriving from compensation changes, e.g., reducing outsized benefits reduction potential

December 2017

Summary of Work

During the month of December work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor, Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The measures refined the assumptions and other input to inform deep, agency-level measure analyses to develop the Board's perspective on the how the fiscal reforms contained in the March 13th Certified Fiscal Plan might be revised to reflect both magnitude of impact and feasibility of implementation post-hurricanes. The work consisted of two major buckets of analysis:

- (1) engaging expert input, a dedicated research team, and independent research to identify information, benchmarks, data, and other evidence to build confidence in assumptions about pre-existing and new potential measures;
- (2) further developing new measures identified since plan certification, including those made possible by demographic shifts and structural damage as a result of the storms.

The baseline team continued to research, driving deep macroeconomic analysis, and worked with the FOMB and government economists to estimate the future macroeconomic projections for the island, as well as their impacts on revenue and expenditure projections in order to arrive at an accurate, post-Maria fiscal plan baseline. In addition, the team identified core areas of structural reforms needed to drive economic growth, and for each area (e.g., energy, infrastructure, job creation and ease of doing business, human capital and labor, and healthcare), identified overall aspirational outcomes for Puerto Rico, as well as potential five-year targets. The team then developed a list of potential initiatives the government could pursue to drive such outcomes. Finally, the team provided thought partnership on the overall framing of the fiscal plan given the economic situation the island was in – and the need for a transformational roadmap in addition to a focus on fiscal discipline.

The stakeholder engagement and modeling team continued to refine the seven quarter liquidity estimate of the Puerto Rico government through Q4 FY 2019; coordinated the production of monthly reports by AAFAF relating to cash flow and disaster relief funding; refined the PR

government's publicly disclosed estimates of cash balances; completed a Fiscal Plan Entity Mapping assessment; executed a Creditor Session, Public Listening session, and Creditor Economist Session; and refined the FOMB's internal financial projections related to the ongoing Fiscal Plan revision process. The work consisted of three primary workstreams: (1) financial planning related to the revised Fiscal Plan (2) cash balance and cash flow analysis related to the PR government's post-Maria liquidity estimates (3) stakeholder engagement related to the FOMB's obligation to engage all relevant parties in an active, transparent manner and to respond to ongoing litigation and mediation

McKinsey's Commonwealth Title III Team Detailed Activities by Deliverable:

- Independent Board perspective of potential revised fiscal reforms, including measure-specific targets and initiatives to capture fiscal value
 - Refined education model to estimate anticipated K-12 school consolidation with updated assumptions including refined benchmarks, e.g., school size;
 - Refined corrections model to estimate anticipated prison facility consolidation using input and updated data received from the government, reviewing recent court decisions to inform potential constraints on the consolidation;
 - Integrated input from Board and McKinsey experts to refine assumptions in healthcare measure value estimates as well as identify a new measure to evaluate;
 - Researched benchmarks on police spend per capita, per crime, and per land mass in other states, comparing to Puerto Rico spending and other metrics on an adjusted PPP basis;
 - Revised agency consolidation model to reflect Board guidance on groupings, agency tiers, and degree of proliferation to establish annual fiscal targets by grouping through FY22;
 - Adjusted the anticipated implementation timelines for each measure based on additional information;
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagement on fiscal measures
 - Participated in review calls with AAFAF and advisors to understand progress against and plans for measures in the upcoming submission of the fiscal plan, including reviewing preliminary presentations on corrections savings opportunities and procurement transformation approach;
 - Participated in a roundtable discussion via webex and phone with various MCOs to gather their perspectives on the recovery of the healthcare system;
- Support models and documentation for sizing of specific measures levers
 - K-12 school consolidation potential assessed at both campus and classroom level, for all districts and regions, respectively;

- Prison facility consolidation model based on utilization reality in Puerto Rico compared with other US states;
- Healthcare measures savings potential for emergency liquidity measures, mid-term fiscal stabilization, and long-term structural reforms;
- Agency consolidation model to establish groupings, tiering of agencies, and generate savings targets for each based on degree of proliferation
- Updated, maintained, and conducted ongoing quality assurance on hundreds of inputs to macroeconomic models forecasting the future course of the economy of Puerto Rico
- Sourced new data and inputs into baseline model of the economy of Puerto Rico, including inputs from the Government, independent research, listening sessions, among other sources
- Identified areas of structural reforms that could contribute to growth across the economy (e.g., labor market, energy, tax, etc.)
- Conducted outreach and interviews on potential structural reforms with Government, private sector stakeholders
- For all structural reforms, identified core aspirational end states as well as potential five-year targets to drive within scope of fiscal plan
- Created synthesis of potential issues for Puerto Rico coming out of US federal tax reform, incorporating inputs from other Board advisors, external tax academic experts, and stakeholder in Puerto Rico
- Refined key estimates that influence the baseline projection of economic activity in Puerto Rico (e.g., projected federal disaster spend, population / demographic shifts, etc.)
- Attended and conducted input sessions with economists to pressure test macroeconomic baseline
- Launched corporate survey to better understand the impact of the hurricane and federal tax reform on local and multi-national corporations
- Conducted in-depth literature review of other jurisdictions' experience post-disaster in terms of impacts on GDP, revenues, expenditures, etc.
- Facilitated weekly Board interactions, supported FOMB staff on an ad-hoc basis with key analyses
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Listening Session on December 4 that focused on capital spending and structural measures
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on December 6 that focused on fiscal and structural measures
 - Prepared documents and coordinated all aspects of logistical support and planning to facilitate a Creditor Economist Session on December 7 that focused on all aspects of the revised Fiscal Plan projections that were under development at the time
 - Commenced planning for a listening session in February 2018
 - Supported FOMB in preparation for and attended public Board meeting on December 5

- Project management lead, including managing overall calendar
 - Participation in and coordination of cross advisor meetings regarding Title III matters in order to monitor key reports, align on expectations for Fiscal Plan, and provide forum for communication and sharing
 - Supported FOMB's response to Rule 2004 inquiry from GO bondholders
 - Supported ongoing Fiscal Plan litigation process by collecting answers submitted in response to prior mediation and posting the answers to the FOMB's online data room
- Financial model(s) and analyses requested by the FOMB
 - Refined research and analysis related to the revised Fiscal Plan that is being produced by the Puerto Rico government, including details relating to a baseline, fiscal and structure reform measures, macro factors and expense/revenue projections.
- Ad-hoc analysis and analytical support
 - Refined ad-hoc analysis regarding possible updates to fiscal plan assumptions (macro assumptions, revenues and expenses)
 - Served as moderator during and provided expert testimony for Creditor Session, Creditor Economist Session and Listening Session
- Reports regarding liquidity performance and strategic choices on liquidity related to Title III proceedings
 - Participated in cross-advisor meetings to assess on-going liquidity performance and prepared various ad-hoc analyses
 - Updated the post-hurricane Commonwealth liquidity needs assessment covering the 7 quarter period ending Q4 FY2019 to incorporate greater detail and refined assumptions
 - Refined cash inventory analysis and facilitated the FOMB making the cash inventory publicly available

McKinsey's Commonwealth Title III Team Detail and Contributions

- Bertil Chappuis (Senior Partner)
 - Participated in weekly Executive Board calls to review progress and advise on key decisions
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Reviewed and provided feedback on presentations and other planning/support documents to facilitate a FOMB Listening Session on December 4, Creditor Session on December 6 and Creditor Economist Session on December 7
 - Attended and provided support for FOMB Public Board Meeting on December 5
 - Attended creditor session on December 6

- Reviewed and provided feedback on key planning assumptions related to the revised FP model
- Thomas Dorman (Senior Partner)
 - Participated in working sessions with team regarding the government’s fiscal plan assumptions
 - Reviewed and provided feedback on key planning assumptions related to the revised FP model
 - Oversaw development of fiscal measures valuation and feasibility assessments, providing direction for additional considerations to be made
 - Provided quality control on macro assumptions, revenue forecasts, and fiscal reforms
 - Supported development of Board materials on macroeconomic projections and revenue/expenditure measures
- Kevin Carmody (Senior Partner)
 - Reviewed materials in advance of stakeholder listening session on December 4
 - Supported content creation on fiscal plan revision process
 - Provided quality control on team content for discussions with Board, FOMB staff and co-advisors
- Tyler Duvall (Partner)
 - Led overall work across all workstreams.
 - Worked extensively with measures team to develop a variety of initiatives to reduce operating expenditures across a variety of agencies
 - Leveraged expertise in procurement, facility O&M opportunities, etc. to optimize savings
 - Supported Board’s evaluation of a variety of capital investment opportunities as part of fiscal plan
 - Guided team and participated in weekly Executive Board calls to review progress and advise on key decisions
 - Participated in multiple problem-solving sessions weekly focused on measures and structural reforms
 - Advised Board on federal disaster response and recovery programs for purposes of incorporation into fiscal plan
 - Provided day to day counseling to senior clients on Oversight Board and Board staff
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Ensured integration between PREPA, PRASA and CW fiscal plans and ensured consistency between baseline, measures and structural reform teams
 - Supported content creation on structural reforms related to infrastructure and energy

- Jonathan Davis (Partner)
 - Directed work of the team, providing overall guidance, problem solving support, and expertise
 - Participated in key stakeholder interactions, e.g., creditor economist meeting, to gather input on macroeconomic trends
 - Conducted problem solving sessions with FOMB and other Board advisors on the potential implications of US federal tax reform on Puerto Rico
 - Sought and incorporated independent sources of pressure testing of macroeconomic work to date (e.g., via economists not previously involved in the efforts), non-traditional sources of data (interviews, social media, etc.)
 - Led development of Board materials on macroeconomic projections and revenue / expenditure measures
 - Participated in weekly Board calls and Subcommittee calls to advise on all fiscal matters
- Ojas Shah (Senior Vice President)
 - Led overall work with regards to fiscal plan model analysis and stakeholder engagement
 - Led discussions in Board and Executive Director calls to regarding updates regarding CW Title III related matters and analyses
 - Prepared for and attended stakeholder listening session on December 4
 - Supported FOMB in preparation for and attended public Board meeting on December 5
 - Supported preparation and attended creditor session on December 6
 - Attended and moderated creditor economist meeting on December 7
 - Led discussions with government and government advisors to further refine joint assessment of short-term liquidity needs for Commonwealth post hurricane Maria
 - Led discussions with government and government advisors regarding fiscal plan revision process and progress
 - Coordinated and participated in cross advisor meetings (Board and Commonwealth) regarding Title III and Commonwealth Fiscal Plan/liquidity requirement matters
 - Led discussions with FOMB and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
- Todd Wintner (Associate Partner)
 - Directed work of measures working team and coordinated points of interaction with other Title III team
 - Served as lead contact for FOMB and Executive Director
 - Provided expert insight across fiscal reform topics
 - Participated in weekly Board calls and Subcommittee calls to advise on all fiscal matters

- Provided key expertise to develop Board perspective on expenditures baseline, including key changes in departmental costs (cap ex, op ex), personnel costs (e.g., payroll, pensions), programmatic costs (e.g., Medicaid), and other key model line items and inputs
- Supported content creation on structural reforms related to healthcare, human capital
- Helped lead content creation on key documentation and participated in key Board and Executive Director interactions
- Jennifer Rost (Associate Partner)
 - Provided expert input in developing a Board perspective for healthcare measures, including viability, timing, magnitude, and specific initiatives that may be feasible in the Puerto Rico context
- Sara O'Rourke (Engagement Manager)
 - Managed working team across all topic areas, and drove progress on the ground (scoping work, determining workplan, scheduling key touchpoints, pulling in expertise where needed)
 - Reviewed and conducted quality control for key documentation for Board / Executive Director interactions, as well as for external stakeholders (e.g., public board meetings, listening sessions, creditor sessions)
 - Served as primary contact for all McKinsey Title III teams for Board, Executive Director & staff; as well as point of contact for baseline team in all external stakeholder interactions
 - Integrated full McKinsey team perspective on structural reforms, working across all teams
 - Prepared presentations for and presented key content for Executive Director and Board
 - Managed relationships and worked closely with Board and Government economists to finalize estimations
- Kari Hernandez (Engagement Manager)
 - Managed measures working team across all topic areas, pressure testing assumptions and feasibility of pre-existing and new potential measures
 - Served as primary contact for measures for Government and advisors, including reviewing interim Government presentations on measure development
 - Coordinated materials to be used for internal (e.g., updates to Executive Director) and external audiences (e.g., listening sessions and creditors)
 - Participated in weekly Board calls and Subcommittee calls to present the work of the team and address outstanding questions from the Board about measures re-development
- Elliott Neal (Engagement Manager)
 - Oversaw development of short-term/intermediate term financial projections and associated materials as requested by FOMB to assess the short-term funding requirements for Puerto Rico

- Participated in discussions with government advisors regarding short-term liquidity needs analysis for Commonwealth post hurricane Maria
- Participated in discussions with government advisors regarding development and refinement of a cash balance analysis for the commonwealth, and facilitated making the cash balance analysis publicly available
- Prepared materials and participated in Board and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan/liquidity related matters and analyses
- Coordinated between FOMB and AAFAF to facilitate the issuance of monthly cash flow, liquidity, budget-to-actual and disaster relief funding reports as requested by the FOMB in fall 2017; compiled memo summarizing key data trends for review by FOMB board members
- Justin Reed (Senior Associate)
 - Revised Fiscal Plan model framework to be used in assessing various financial scenarios based on the FOMB's view of Puerto Rico's long-term recovery path
 - Supported update of Commonwealth liquidity need analysis to incorporate latest disaster recovery estimates and updated macro assumptions
 - Finalized analysis of fiscal plan data segregating Commonwealth revenues and expenses by key agency
 - Finalized ad-hoc analysis regarding possible updates to fiscal plan baseline assumptions (macro, revenue, and expenses)
 - Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts with Government advisors
- Justin Collins (Associate)
 - Oversaw FOMB staff in tracking commonwealth's liquidity status and improving the FOMB's liquidity reporting capability via the establishment of reporting dashboards and other key metric reporting systems
 - Coordinated with FOMB staff and government advisors to refine the Commonwealth's cash balance inventory analysis and make that analysis publicly available
 - Prepared materials for potential questions and answers related to Commonwealth liquidity position and other Title III related topics
 - Facilitated planning and execution of Creditor Session, Listening Session and Creditor Economist Session
 - Commenced planning for a listening session in February 2018
- Zarif Jamil (Senior Business Analyst)
 - Coordinated preparation of responses to mediation questions from creditors assigned to FOMB advisors
 - Supported the refinement of the Commonwealth's post-Maria liquidity funding estimate

- Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Listening Session on December 4 that focused on capital spending and structural measures
- Prepared documents and coordinated all aspects of logistical support and planning to facilitate an all-day Creditor Session on December 6 that focused on fiscal and structural measures
- Prepared documents and coordinated all aspects of logistical support and planning to facilitate a Creditor Economist Session on December 7 that focused on all aspects of the revised Fiscal Plan projections that were under development at the time
- Andrew Mayock (Associate)
 - Refined model for K-12 school consolidation, administrative structure consolidation, and estimated procurement savings;
 - Led informational interviews with Department of Education leadership to understand strategic direction and goals
- Sarah Esty (Associate)
 - Refined healthcare measures based on Board and expert input
 - Conducted research on successful agency consolidations in other states to develop evidence-based case studies of savings amounts and details
 - Coordinated with pensions advisor to update model to reflect new population assumptions and social security enrollment costs
- Irfan Mahmud (Analyst)
 - Refined opportunity for prison facility consolidation, prisoner healthcare procurement savings
 - Developed preliminary view on whether the Puerto Rico police force is outsized relative to its crime rate, population, and geography
- Auden Laurence (Analyst)
 - Responsible for structural reforms content on healthcare and education, interacting with experts and conducting firsthand analysis
 - Responsible for analysis of expenditures baseline, including major impacts to payroll, cap ex, op ex, and Medicaid expenditures
 - Drove analysis on key tax revenue streams for revenue baseline (e.g., non-resident withholdings, Act 154, excise taxes, etc.)
 - Co-owed model, updating key assumptions and methodologies based on hurricane impacts to drive new projections
 - Managed integration with measures team on core overlapping areas, including definition of baseline versus measures impacts on core sectors (e.g., healthcare, education)
- Adam Gerard (Analyst)

- Responsible for structural reforms content on labor market and job creation, interacting with experts and conducting firsthand analysis
- Conducted core research to drive macroeconomic thinking on baseline, including all research into global comparable disaster events, historical data on GNP, and potential reports and research to drive macroeconomic assumptions
- Helped lead problem solving with economists to drive new insights and refine model and final projections
- Conducted scenario analysis of core drivers of the model, and ensured updated assumptions were incorporated
- Led gathering of real time data through interviews, surveys, research, etc.

January 2018

Summary of Work

During the month of December work performed by McKinsey was segregated into three primary workstreams: fiscal plan measures development and analysis (measures), fiscal plan macroeconomic and baseline assumption development and analysis (baseline), and Title III Advisor, Stakeholder, Litigation Support & Fiscal Plan Model (stakeholder engagement and modeling).

The baseline and measures team continued to develop and refine the FOMB's perspective across all aspects of the fiscal plan, including the baseline, fiscal measures, and structural reforms. In addition, it involved driving analysis of the Government's fiscal plan submissions to date to pinpoint key areas of divergence. The team drove towards finalization of FOMB baseline and measures models, developed structural reform initiatives to drive economic growth, and produced content to support the FOMB in its working sessions with the Government.

The stakeholder engagement and modeling team developed analyses to quantify and evaluate the financial impact of FOMB fiscal plan assumptions, reviewed and analyzed the draft fiscal plan submitted by the government, and supported creditor mediation/listening session preparation. The work consisted of two primary workstreams:

- (1) financial planning and analysis related to the FOMB perspective regarding Fiscal Plan assumptions
- (2) review, analysis, response to draft fiscal plan submitted by the government.

McKinsey's Commonwealth Title III Team Detailed Activities by Deliverable

- Facilitated weekly Board sessions to align on Fiscal Plan perspective and supported FOMB staff on an ad-hoc basis with key analyses

- Led Board preparation for sessions with the Government on major topics of discussion related to the fiscal plan
- Updated, maintained, and conducted ongoing quality assurance on hundreds of inputs to macroeconomic models forecasting the future course of the economy of Puerto Rico
- Worked towards finalization of data and inputs into baseline model of the economy of Puerto Rico, including inputs from the Government, independent research, listening sessions, among other sources, as new data became available
- Refined key estimates that influence the baseline projection of economic activity in Puerto Rico (e.g., projected federal disaster spend, revenue collections, Medicaid PMPM estimates, etc.)
- Refined analysis of Board's perspective on core fiscal measures (e.g., government rightsizing, procurement savings reductions, subsidies, pensions, healthcare, education, etc.)
- Developed potential structural reform initiatives to contribute to growth across the economy (e.g., labor market, energy, tax, etc.), and sized impact in collaboration with economists
- Conducted outreach and interviews on structural reforms with Government, private sector stakeholders
- Led diligence of Government Fiscal Plan submissions, including analysis of hundreds of discrete data sources and inputs, comparing with FOMB perspective baseline, measures, and structural reform scoring; scored Government Fiscal Plan and worked with FOMB staff to identify key recommendations and requirements
- Conducted multiple sessions with Government advisors to pressure test assumptions, refine data, discuss core ideas underpinning the fiscal plan
- Financial model(s) and analyses requested by the FOMB
 - Continued development of macro baseline assumptions to include effects of disaster recovery funding
 - Updated FY18 baseline revenue projections to include fiscal year-to-date actual results
 - Developed analysis bridging FY18 projected expenses to FY18 budget
 - Processed general model structure updates as required
- Review and analysis of draft fiscal plan submitted by government
 - Developed dynamic variance analysis highlighting key areas of difference between government and FOMB perspectives
 - Reviewed and analyzed entities covered in government fiscal plan to ensure all required entities accurately reflected in fiscal plan
- Presentations and documents for public listening sessions, creditor sessions and other stakeholder engagements
 - Commenced planning for public listening session discussing the future of Puerto Rico's power market and creditor mediation session discussing the draft revised Commonwealth Fiscal Plan

- Successfully conducted public listening session discussion the future of Puerto Rico's power market
- Support related to liquidity reporting and related matters
 - Commenced process of transferring regular liquidity reporting to FOMB staff on a go forward basis
 - Continued coordination with government advisors to understand municipality paygo payment status
 - Continued support and coordination with FOMB staff and advisors related to ongoing Commonwealth cash balance analysis

McKinsey's Commonwealth Title III Team Detail and Contributions

- Bertil Chappuis (Senior Partner)
 - Participated in weekly Executive Board calls to review progress and advise on key decisions
 - Participate in several Board subcommittee meeting on various topics related to the fiscal plan
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Reviewed and provided input on government's draft FP presentation
 - Participate in working sessions with team regarding the government's fiscal plan assumptions
- Thomas Dorman (Senior Partner)
 - Participated in working sessions with team regarding the government's fiscal plan assumptions
 - Refined perspective on the amount of federal disaster relief likely available to Puerto Rico based on current law and appropriations
 - Reviewed revenue trends in light of trend in actual revenue collections from October to December
 - Reviewed and provided input on government's draft FP presentation
- Kevin Carmody (Senior Partner)
 - Reviewed analyses related to model structure and baseline assumptions included in draft government submission of revised fiscal plan
 - Reviewed variance analysis highlighting outstanding key areas of difference between government draft fiscal plan and FOMB perspective
 - Attended and participated in several FOMB strategy session in support of on-going discussions between the FOMB and the government

- Provided quality control on team content
- Tyler Duvall (Partner)
 - Led overall work across all workstreams.
 - Worked extensively with measures team to develop a variety of initiatives to reduce operating expenditures across a variety of agencies
 - Leveraged expertise in procurement, facility O&M opportunities, etc. to optimize savings
 - Supported Board's evaluation of a variety of capital investment opportunities as part of fiscal plan
 - Guided team and participated in weekly Executive Board calls to review progress and advise on key decisions
 - Participated in multiple problem-solving sessions weekly focused on measures and structural reforms
 - Advised Board on federal disaster response and recovery programs for purposes of incorporation into fiscal plan
 - Provided day to day counseling to senior clients on Oversight Board and Board staff
 - Provided overall quality control on team content and stakeholder management with Board, FOMB staff and co-advisors
 - Ensured integration between PREPA, PRASA and CW fiscal plans and ensured consistency between baseline, measures and structural reform teams
 - Supported content creation on structural reforms related to infrastructure and energy
- Jonathan Davis (Partner)
 - Directed work of overall team and led quality control of all Board materials /documentation
 - Refined perspective on the implications of Tax Cuts and Jobs Act on Puerto Rico, in conjunction with other Board advisors
 - Refined perspective on the amount of federal disaster relief likely available to Puerto Rico based on current law and appropriations
 - Updated view of revenue trends in light of trend in actual revenue collections from October - December
 - Participated in key Board and Executive Director meetings to provide expertise and thought partnership
 - Provided expertise on a variety of topics, including federal tax reform, macroeconomic drivers, global comparable disaster events and impacts, intricacies of tax revenues, etc.
- Ojas Shah (Partner)
 - Led overall work with regards to fiscal plan model development, analysis and refinement

- Oversaw the review and analysis related to model structure and baseline assumptions included in draft government submission of revised fiscal plan
- Oversaw the development of variance analysis highlighting outstanding key areas of difference between government draft fiscal plan and FOMB perspective
- Attended and participated in several working sessions with government advisors regarding fiscal plan model
- Attended public hearing in San Juan on January 19 regarding Commonwealth cash position
- Attended and participated in several FOMB strategy session in support of on-going discussions between the FOMB and the government
- Participated in FOMB and Executive Director calls to provide updates regarding Title III and Commonwealth Fiscal Plan related matters and analyses
- Jennifer Rost (Partner)
 - Provided expertise on and led content creation on all healthcare analyses and outputs, including baseline expenditure projections (e.g., population projections, PMPM growth rates), potential measures, new assumptions to incorporate, etc.
- Todd Wintner (Associate Partner)
 - Directed work of fiscal measures team and led quality control of all Board materials /documentation related to fiscal measures
 - Provided key expertise to develop Board perspective on expenditures baseline, including key changes in departmental costs (cap ex, op ex), personnel costs (e.g., payroll, pensions), programmatic costs (e.g., Medicaid), and other key model line items and inputs
 - Led FOMB perspective Fiscal Plan measures modeling and comparison to Government submissions, including structural reforms (e.g., education)
 - Helped lead content creation on key documentation and participated in key Board and Executive Director interactions
- Sara O'Rourke (Engagement Manager)
 - Managed working team across all topic areas, and drove progress on the ground (scoping work, determining workplan, scheduling key touchpoints, pulling in expertise where needed)
 - Reviewed and conducted quality control for key documentation for Board / Executive Director interactions, as well as for external stakeholders (e.g., public board meetings, listening sessions, creditor sessions)
 - Served as primary contact for all McKinsey Title III teams for Board, Executive Director & staff; as well as point of contact for baseline team in all external stakeholder interactions
 - Prepared presentations for and presented key content for Executive Director and Board

- Incorporated perspectives across teams on core measures, structural reforms with implications on HTA, PREPA, PRASA, etc.
- Managed relationships and worked closely with Board and Government economists to finalize estimations
- Facilitated Board sessions
- Justin Reed (Senior Associate)
 - Led the review, analysis, and response related to model structure and baseline assumptions included in draft government submission of revised fiscal plan
 - Led the development of variance analysis highlighting outstanding key areas of difference between government draft fiscal plan and FOMB perspective
 - Supported and reviewed general fiscal plan model updates and maintenance related to baseline assumptions
 - Supported and reviewed development of reconciliation from fiscal plan FY18 expense base to FY18 Commonwealth budget
 - Coordinated with FOMB macroeconomist to develop initial perspective on 40 year projection model
 - Commenced initial analysis reconciling FP1.0 to FP2.0
 - Contributed to development of materials presented to FOMB highlighting key FOMB baseline assumptions relative to government draft fiscal plan
 - Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts and align assumptions with Government advisors
- Dean Udom (Associate)
 - Maintained financial model supporting FOMB fiscal plan perspective including processing updates and general model maintenance
 - Developed dynamic variance analysis highlighting key areas of difference between FOMB fiscal plan perspective and government draft fiscal plan
 - Supported updates to fiscal plan revenue and expense baseline assumptions
 - Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts and align assumptions with Government advisors
 - Reviewed and analyzed draft government submissions of fiscal plan
 - Contributed to development of materials presented to FOMB highlighting key FOMB baseline assumptions relative to government draft fiscal plan
- Justin Collins (Associate)
 - Conducted detailed due diligence on Commonwealth FY18 budget to understand cost concepts and agency mapping
 - Developed detailed work plan to effectively transition liquidity reporting analysis to FOMB staff

- Commenced and completed transition of liquidity reporting workstream to FOMB staff
- Developed detailed reconciliation tying expenses and disbursements included in FY18 of the draft fiscal plan to the FY18 Commonwealth budget
- Supported efforts to develop variance analysis highlighting key areas of difference between FOMB perspective and government draft fiscal plan revenue assumptions
- Developed draft intergovernmental activity schedule mapping intergovernmental/agency revenues and expenses for fiscal plan elimination purposes
- Coordinated planning for public listening session related to the future of the power market in Puerto Rico and creditor mediation session in January 2018
- Attended and participated in public listening session related to the future of the power market in Puerto Rico
- Participated in cross advisor calls and meetings to coordinate fiscal plan revision efforts and align assumptions with Government advisors
- Peter Bailinson (Analyst)
 - Drove analysis on fiscal measures related to pensions, subsidies, government rightsizing (including corrections, police, procurement, all other agencies), and revenues
 - Owned overall measures model and managed integration between measures and baseline models on core overlapping areas
 - Drove analysis to develop Fiscal Plan materials related to corporate tax reform and subsidy principles, including principles for and implications of municipal consolidations
- Adam Gerard (Analyst)
 - Conducted core research to drive macroeconomic thinking on baseline, including all research into global comparable disaster events, historical data on GNP, and potential reports and research to drive macroeconomic assumptions
 - Helped lead problem solving with economists to refine model and finalize projections
 - Conducted scenario analysis of core drivers of the model, and ensured updated assumptions were incorporated
 - Developed and refined assumptions related to revenue and expenditure projections within the baseline, including pressure testing government data / perspective as well
 - Led gathering of real time data through interviews, surveys, research, etc.
- Avery Rasmussen (Analyst)
 - Responsible for ongoing refinement of Medicaid baseline as new data became available to finalize FOMB perspective and led diligence of Government Fiscal Plan Medicaid baseline submissions
 - Led analysis and finalized perspective on healthcare and education measures
 - Led structural reforms analysis, working with experts and clients on developing initiatives, metrics, cost analysis, and working with economists on growth impact

- Co-owned measures model to develop FOMB Fiscal Plan perspective of Medicaid and Education measures, refining as new data became available and leading diligence of Government submissions

EXHIBIT D

November - December 2017 and January 2018 Invoices

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC016-4852R

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Cases
Effective Agreement Date: November 1, 2017

Invoice Date: 1/31/2018

Net 30

FFP Payment Schedule for Commonwealth Services

Invoice PoP: November 1, 2017 – November 30, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	2,042,400.00
Gross invoice amount for services performed in Puerto Rico:	\$	250,140.85
Subtotal	\$	2,292,540.85
Less withholding tax deducted at source	\$	(72,540.85)
Net Invoice Payable:	\$	2,220,000.00

Invoice PoP: December 1, 2017 – December 31, 2017

Gross invoice amount for services performed outside Puerto Rico:	\$	1,171,500.00
Gross invoice amount for services performed in Puerto Rico:	\$	673,943.66
Subtotal	\$	1,845,443.66
Less withholding tax deducted at source	\$	(195,443.66)
Net Invoice Payable:	\$	1,650,000.00

Total Invoice: \$3,870,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or Jordan Mandell 202-662-0938.

McKinsey&Company

The Financial Oversight and
Management Board for Puerto Rico
PO Box 195556
San Juan, Puerto Rico 00919-5556

ATTN: Promesa Assistant
accountspayable@promesa.gov

Invoice No: DCG-GPC016-4884

Consulting Agreement
Client for Strategic Consulting support related to
the Title III Cases
Effective Agreement Date: November 1, 2017

Invoice Date: 2/21/2018

Net 30

FFP Payment Schedule for Commonwealth Services

Invoice PoP: January 1, 2018 – January 31, 2018

Gross invoice amount for services performed outside Puerto Rico:	\$	756,600.00
Gross invoice amount for services performed in Puerto Rico:	\$	1,666,760.56
Subtotal	\$	2,423,360.56
Less withholding tax deducted at source	\$	(483,360.56)
Net Invoice Payable:	\$	1,940,000.00

Total Invoice: \$1,940,000.00

Please wire transfer payment to:
McKinsey & Company, Inc.
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number: 021000089

If remitting by check please send check to:
McKinsey & Company, Inc.
P.O. Box 7247-7255
Philadelphia, PA 19170-7255

Federal Tax ID#: 56-2405213

Please reference the invoice number and invoice date on your remittance advice.

For advice or questions on remittances, please contact Pamela Wertz 202-662-0060 or Jordan Mandell 202-662-0938.

EXHIBIT C

EXHIBIT C

LIST OF MCKINSEY PROFESSIONALS

NAME OF PROFESSIONAL	TITLE
Peter Bailinson	Analyst
Kevin Carmody	Senior Partner
Bertil Chappuis	Senior Partner
Justin Collins	Associate
Jonathan Davis	Partner
Thomas Dohrmann	Senior Partner
Tyler Duvall	Partner
Sarah Esty	Associate
Adam Gerard	Analyst
Kari Hernandez	Engagement Manager
Zarif Jamil	Senior Business Analyst
Auden Laurence	Analyst
Irfan Mahmud	Analyst
Andrew Mayock	Associate
Elliott Neal	Engagement Manager
Sara O'Rourke	Engagement Manager
Avery Rasmussen	Analyst
Justin Reed	Senior Associate
Jennifer Rost	Partner
Ojas Shah	Senior Vice President
Alexey Sosnovskiy	Engagement Manager
Julien Truchon-Poliard	Associate
Dean Udom	Associate
Todd Wintner	Associate Partner